

HABITAT FOR HUMANITY OF SUMMIT COUNTY, INC.
(A NON-PROFIT ORGANIZATION)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

March 31, 2020

INDEX

	<u>Page</u>
Independent Auditor's Report	
Financial Statements:	
Statement of Financial Position	2 - 3
Statement of Changes in Net Assets	4
Statement of Activities	5 - 6
Statement of Functional Expenses	7 - 8
Statement of Cash Flows	9 - 10
Notes to Financial Statements	11 - 24



INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Habitat for Humanity of Summit County, Inc.
Akron, Ohio

We have audited the accompanying financial statements of Habitat for Humanity of Summit County, Inc. (a non-profit organization), which comprise the Statement of Financial Position as of March 31, 2020 and 2019, and the related Statements of Changes in Net Assets, Activities, Functional Expenses and Cash Flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Summit County, Inc. as of March 31, 2020 and 2019, and the results of the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads 'Meaden & Moore LTD.' in a cursive script.

MEADEN & MOORE, LTD.
Akron, Ohio

August 25, 2020

STATEMENT OF FINANCIAL POSITION

Habitat for Humanity of Summit County, Inc.

	March 31 2020		
	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS:			
Cash and cash equivalents	\$ 77,290	\$ 232,713	\$ 310,003
Investments	402,654	-	402,654
Mortgages receivable - net of discount	2,969,578	-	2,969,578
Inventory	161,195	-	161,195
Prepaid expenses and deposits	9,870	-	9,870
Construction in progress - net of discount	260,285	-	260,285
Land, buildings and equipment - net	1,886,369	-	1,886,369
Intangible assets	7,687	-	7,687
Land held for resale	616,217	-	616,217
	<u>6,391,145</u>	<u>232,713</u>	<u>6,623,858</u>
Total Assets	<u>\$ 6,391,145</u>	<u>\$ 232,713</u>	<u>\$ 6,623,858</u>
LIABILITIES:			
Accounts payable	\$ 166,403	\$ -	\$ 166,403
Accrued expenses	83,766	-	83,766
Long-term debt	999,920	-	999,920
	<u>1,250,089</u>	<u>-</u>	<u>1,250,089</u>
Total Liabilities	<u>1,250,089</u>	<u>-</u>	<u>1,250,089</u>
NET ASSETS	<u>5,141,056</u>	<u>232,713</u>	<u>5,373,769</u>
Total Liabilities and Net Assets	<u>\$ 6,391,145</u>	<u>\$ 232,713</u>	<u>\$ 6,623,858</u>

See accompanying notes.

	March 31 2019		
	Without Donor Restrictions	With Donor Restrictions	Total
ASSETS:			
Cash and cash equivalents	\$ 83,668	\$ 246,062	\$ 329,730
Mortgages receivable - net of discount	2,818,484	-	2,818,484
Inventory	216,294	-	216,294
Prepaid expenses and deposits	10,796	-	10,796
Construction in progress - net of discount	141,041	-	141,041
Land, buildings and equipment - net	1,957,402	-	1,957,402
Intangible assets	1,603	-	1,603
Land held for resale	549,261	-	549,261
Homes held for lease - net of discount	44,142	-	44,142
	<u>5,822,691</u>	<u>246,062</u>	<u>6,068,753</u>
Total Assets	<u>\$ 5,822,691</u>	<u>\$ 246,062</u>	<u>\$ 6,068,753</u>
LIABILITIES:			
Line-of-credit	\$ 252,875	\$ -	\$ 252,875
Accounts payable	210,745	-	210,745
Accrued expenses	94,648	-	94,648
Long-term debt	65,255	-	65,255
	<u>623,523</u>	<u>-</u>	<u>623,523</u>
Total Liabilities	<u>623,523</u>	<u>-</u>	<u>623,523</u>
NET ASSETS	<u>5,199,168</u>	<u>246,062</u>	<u>5,445,230</u>
Total Liabilities and Net Assets	<u>\$ 5,822,691</u>	<u>\$ 246,062</u>	<u>\$ 6,068,753</u>

STATEMENT OF CHANGES IN NET ASSETS

Habitat for Humanity of Summit County, Inc.

For the Years Ended March 31, 2020 and 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets - March 31, 2018	\$ 5,337,502	\$ 271,025	\$ 5,608,527
Change in net assets - 2019	<u>(138,334)</u>	<u>(24,963)</u>	<u>(163,297)</u>
Net Assets - March 31, 2019	5,199,168	246,062	5,445,230
Change in net assets - 2020	<u>(58,112)</u>	<u>(13,349)</u>	<u>(71,461)</u>
Net Assets - March 31, 2020	<u>\$ 5,141,056</u>	<u>\$ 232,713</u>	<u>\$ 5,373,769</u>

See accompanying notes.

STATEMENT OF ACTIVITIES

Habitat for Humanity of Summit County, Inc.

Years Ended March 31

	2020		
	Without Donor Restrictions	With Donor Restrictions	Total
OPERATING SUPPORT AND REVENUE:			
Contributions and grants	\$ 716,499	\$ 462,884	\$ 1,179,383
Donated goods and services	1,014,495	-	1,014,495
Special events - net	29,154	-	29,154
Mortgages and loans issued to homeowners	737,534	-	737,534
Imputed interest from discounted mortgages	214,059	-	214,059
ReStore income	981,175	-	981,175
Loss on sale of homes	(8,695)	-	(8,695)
Investment income	2,718	-	2,718
Other income	19,377	-	19,377
Gain (Loss) on sale of property and equipment	<u>(6,905)</u>	<u>-</u>	<u>(6,905)</u>
 Total Operating Support and Revenue	 3,699,411	 462,884	 4,162,295
 Net Assets Released from Restrictions:			
Satisfaction of program restrictions	<u>476,233</u>	<u>(476,233)</u>	<u>-</u>
	4,175,644	(13,349)	4,162,295
EXPENSES:			
Program services	3,513,436	-	3,513,436
General and administrative	536,083	-	536,083
Fundraising and development	<u>184,237</u>	<u>-</u>	<u>184,237</u>
 Total Expenses	 <u>4,233,756</u>	 <u>-</u>	 <u>4,233,756</u>
 Change in Net Assets	 <u>\$ (58,112)</u>	 <u>\$ (13,349)</u>	 <u>\$ (71,461)</u>

See accompanying notes.

2019

Without Donor Restrictions	With Donor Restrictions	Total
\$ 485,686	\$ 409,104	\$ 894,790
1,139,758	-	1,139,758
39,419	-	39,419
796,663	-	796,663
208,725	-	208,725
1,107,567	-	1,107,567
-	-	-
90	-	90
15,081	-	15,081
500	-	500
3,793,489	409,104	4,202,593
434,067	(434,067)	-
4,227,556	(24,963)	4,202,593
3,679,512	-	3,679,512
506,186	-	506,186
180,192	-	180,192
4,365,890	-	4,365,890
\$ (138,334)	\$ (24,963)	\$ (163,297)

STATEMENT OF FUNCTIONAL EXPENSES

Habitat for Humanity of Summit County, Inc.

Years Ended March 31

	2020			Total
	Program Services	General and Administrative	Fundraising and Development	
Cost of ReStore sales	\$ 989,384	\$ -	\$ -	\$ 989,384
Cost of homes	966,949	-	-	966,949
Discount on mortgages issued, including anticipated discount on construction in progress	410,400	-	-	410,400
Cost of homes - International Tithe	1,400	-	-	1,400
Salaries and wages	699,073	208,438	128,460	1,035,971
Payroll taxes	46,208	13,778	8,491	68,477
Employee benefits	93,180	27,783	17,123	138,086
Professional and contract services	35,361	35,357	19,139	89,857
Rent	8,133	8,133	-	16,266
Utilities	45,968	45,967	-	91,935
Repairs and maintenance	28,805	28,805	-	57,610
Equipment expenses	9,381	9,381	-	18,762
Property taxes	3,815	3,814	-	7,629
Depreciation and amortization	38,725	38,724	-	77,449
Office supplies	21,172	21,170	-	42,342
Printing and publications	1,258	1,257	2,515	5,030
Postage	2,023	2,022	-	4,045
Insurance	18,212	18,212	-	36,424
Advertising and marketing	4,255	4,254	8,509	17,018
Transportation and travel	31,118	10,373	-	41,491
Conferences and meetings	1,568	1,568	-	3,136
Bank service charges	10,287	10,287	-	20,574
Interest expense	15,602	15,601	-	31,203
Miscellaneous operating expenses	31,159	31,159	-	62,318
Total Functional Expenses	\$ 3,513,436	\$ 536,083	\$ 184,237	\$ 4,233,756

See accompanying notes.

2019

Program Services	General and Administrative	Fundraising and Development	Total
\$ 1,112,132	\$ -	\$ -	\$ 1,112,132
1,082,892	-	-	1,082,892
365,934	-	-	365,934
10,000	-	-	10,000
687,575	205,009	126,348	1,018,932
44,356	13,225	8,151	65,732
93,610	27,911	17,202	138,723
28,770	28,767	15,572	73,109
7,788	7,788	-	15,576
48,857	48,856	-	97,713
20,414	20,414	-	40,828
3,527	3,526	-	7,053
2,318	2,317	-	4,635
40,151	40,150	-	80,301
23,978	23,977	-	47,955
951	950	1,902	3,803
2,977	2,976	-	5,953
18,828	18,828	-	37,656
5,509	5,508	11,017	22,034
34,436	11,478	-	45,914
2,459	2,458	-	4,917
9,436	9,436	-	18,872
9,068	9,067	-	18,135
23,546	23,545	-	47,091
<u>\$ 3,679,512</u>	<u>\$ 506,186</u>	<u>\$ 180,192</u>	<u>\$ 4,365,890</u>

STATEMENT OF CASH FLOWS

Habitat for Humanity of Summit County, Inc.

	Year Ended March 31	
	<u>2020</u>	<u>2019</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors	\$ 2,116,639	\$ 2,051,970
Cash received from sale of merchandise	981,175	1,107,567
Interest received	64	90
Cash paid to suppliers and employees	(3,810,273)	(3,471,403)
Interest paid	<u>(29,287)</u>	<u>(14,929)</u>
 Cash Used in Operating Activities	 (741,682)	 (326,705)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on sale of homes	82,960	-
Proceeds on sale of property and equipment	1,000	500
Capital expenditures	(12,405)	(43,273)
Net purchases of investment	(400,000)	-
Loan fees	(8,000)	-
Mortgage and loan payments received	<u>376,610</u>	<u>332,816</u>
 Cash Provided by Investing Activities	 40,165	 290,043
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional borrowings on long-term debt	1,000,000	-
Net borrowings (repayments) on line-of-credit	(252,875)	252,875
Repayment of long-term debt	<u>(65,335)</u>	<u>(201,216)</u>
 Cash Provided by Financing Activities	 <u>681,790</u>	 <u>51,659</u>
 Increase (Decrease) in Cash and Cash Equivalents	 (19,727)	 14,997
 Cash and Cash Equivalents - Beginning of the Year	 <u>329,730</u>	 <u>314,733</u>
 Cash and Cash Equivalents - End of the Year	 <u>\$ 310,003</u>	 <u>\$ 329,730</u>

See accompanying notes.

	Year Ended March 31	
	<u>2020</u>	<u>2019</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in Net Assets	\$ (71,461)	\$ (163,297)
Adjustments to Reconcile Change in Net Assets to Net Cash		
Used in Operating Activities:		
Depreciation	75,533	80,301
Amortization of loan fees	1,916	3,206
Mortgage loan discount amortization	(214,059)	(208,725)
Loss on sale of homes	8,695	-
Loss (Gain) on sale of property and equipment	6,905	(500)
Donated land	(125,770)	(37,078)
Mortgages and loans issued to homeowners	(737,534)	(796,663)
Discount on mortgages and leases issued	286,290	454,804
Discount on construction in progress	124,110	(38,121)
Discount on homes held for resale	-	(50,749)
Interest reinvested	(2,654)	-
Increase (Decrease) in Cash from Changes in:		
Inventory	55,099	43,782
Home and land rehabilitation and construction in progress	(94,454)	247,683
Prepaid expenses and deposits	926	1,521
Accounts payable	(44,342)	134,640
Accrued expenses	(10,882)	2,491
	<u>(670,221)</u>	<u>(163,408)</u>
Cash Used in Operating Activities	<u>\$ (741,682)</u>	<u>\$ (326,705)</u>
Supplemental Schedule of Noncash Investing and Financing Activities:		
Mortgage receivable forgiven on sale of home	<u>\$ 91,655</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies

Nature of the Organization:

Habitat for Humanity of Summit County, Inc. ("HFHSC" or "Organization"), a non-profit organization, is an affiliate of Habitat for Humanity International, Inc. ("International"), an ecumenical Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and make decent shelter a matter of conscience with people everywhere. Although International assists with information resources, training, publications, prayer support and in other ways, HFHSC is primarily and directly responsible for its own operations.

HFHSC, through its many volunteers, constructs affordable housing and transfers the homes to qualified families at cost by providing non-interest bearing mortgage loans. HFHSC is primarily responsible for the legal, organizational, fundraising, family selection and nurture, financial and construction aspects of the work.

The Organization provides all homeowners in their program with financial and homeowner education classes on a variety of subjects in order to help ensure responsible and successful homeownership through the program, thereby minimizing the number of foreclosures produced.

HFHSC operates several other programs including a home repair program ("A Brush with Kindness") for exterior home repair to homeowners of similar qualifications to its core program of building new construction homes. Home repairs include windows, doors, siding, shutters, gutters, downspouts, painting, landscaping and porch repairs. The homeowner signs a non-interest bearing promissory note for the cost of materials used in the home repair.

Additionally, HFHSC operates a deconstruction program throughout Summit County on mostly vacant and abandoned homes that are slated for demolition. Some private projects are also completed through an indemnity waiver by the property owner. The deconstruction program reclaims items that are reusable, recyclable, or for resale to generate revenue to support its core programs.

HFHSC also builds to unify a voice to renew the community through their Neighborhood Network Mission. They engage in neighborhood organizations, block clubs, faith communities, social service agencies and business to build relationships and the community. They repair homes for qualifying households, install lights and complete vacant lot clean up and general landscaping assistance.

The Organization also operates a retail store under the name Habitat ReStore ("ReStore"). The store is open to the public and accepts donations of new and gently used building materials, furniture, and appliances that are sold to the public or used in the construction of Habitat homes. All revenue from the sale of items are used toward the expansion of the home building and repairing programs.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Classification of Net Assets:

In accordance with U.S. GAAP, contributions are classified as without donor restrictions or with donor restrictions based on donor specifications.

Assets, liabilities, revenue and gains are presented under these classifications. Designations by the Board, while separately stated, are considered without donor restriction.

Grants and contributions received with donor-imposed restrictions are recorded as without donor restriction if the restrictions are expected to be met within the same period. This policy is also followed for investment income received with donor-imposed restrictions.

No endowment funds, as defined by FASB ASC 958, are held by the Organization.

Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, HFHSC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Temporarily uninvested cash in investment accounts is considered an investment rather than a cash equivalent.

At times during the year, HFHSC maintained funds on deposit at its banks in excess of FDIC insurance limits.

Mortgage Receivable and Discount:

As homes are transferred to qualified families, HFHSC allows qualified families to purchase homes at cost subject to mortgages which bear no interest. These mortgages are for terms of 15 to 30 years. The discount of the mortgages is required to reflect economic benefit of the zero-interest-mortgage to the qualified families. The discount recorded has been estimated based on the prevailing interest, as determined by International, in the period of origination and payment terms defined in the mortgage. A portion of the discount is amortized on a straight-line basis as interest income each year the mortgage is outstanding.

	2020			2019
	Total	Current Portion	Long-Term Portion	Total
Mortgage receivable - gross	\$ 6,427,391	\$ 371,011	\$ 6,056,380	\$ 6,158,122
Discount	<u>(3,457,813)</u>	<u>(189,216)</u>	<u>(3,268,597)</u>	<u>(3,339,638)</u>
Mortgage receivable - net	<u>\$ 2,969,578</u>	<u>\$ 181,795</u>	<u>\$ 2,787,783</u>	<u>\$ 2,818,484</u>

During the year ended March 31, 2020, 6 homes were transferred to qualified families recognizing \$670,000 of revenue from mortgage transfers. During the year ended March 31, 2019, 7 homes were transferred to qualified families recognizing \$770,000 of revenue from mortgage transfers.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Mortgage Receivable and Discount, Continued:

No allowance for bad debts is recorded because HFHSC feels all costs would be recovered through the resale of the house in the event of foreclosure. At March 31, 2020, there was 1 mortgage in foreclosure totaling \$20,710 with an unamortized discount of \$11,197. At March 31, 2019, there were 4 mortgages in foreclosure totaling \$132,880 with an unamortized discount of \$44,987.

Fair Value Measurements:

As defined in FASB ASC 820, "Fair Value Measurements", fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable firm inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the examination of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Inputs to the valuation methodology are unadjusted quoted market prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- * Quoted prices for similar assets or liabilities in active markets;
- * Quoted prices for identical assets or similar assets or liabilities in inactive markets;
- * Inputs other than quoted prices that are observable for the asset or liability;
- * Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The following is a description of the valuation methodologies used for instruments measured at fair value, including the general classification of such instruments pursuant to the valuation hierarchy.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Investments:

Investments are comprised of money market funds (referred to as cash and cash equivalents) and mutual funds. Investments whose values are based on quoted market prices in active markets are classified within Level 1. These investments generally include equity securities traded on a national securities exchange, U.S. government and corporate securities, and money market securities.

Land Held for Resale:

Property and land donated to HFHSC for the purpose of resale is recorded at the locality's assessed value for property tax purposes, which approximates fair market value. The Organization buys land that they may or may not build on and occasionally sells the land outright. Therefore, it is considered an investment.

In 2020 and 2019, there were 33 and 29 lots totaling \$616,217 and \$549,261, respectively.

Land held for resale are measured at fair value, which are classified as Level 2.

Homes Held for Resale:

Homes held for resale are carried on the books as assets at the mortgage value or cost, less the unamortized discount. There were no homes for sale in 2020 and 2019.

Homes held for resale are measured at fair value, which are classified as Level 2.

Escrow Liability:

The Organization collects escrow amounts from qualified families for the payment of taxes and insurance. These amounts are held in escrow pending the payment of expenses relating to the funds received.

Funds held in escrow at year-end were \$76,170 (2020) and \$82,548 (2019). These amounts are included in accrued expenses.

Inventories:

Inventories consist of purchased and donated raw materials used in the construction of partner family homes. The value of in-kind donations included in inventory are recorded at an estimated fair market value, as determined by management, at the time of receipt.

ReStore inventories consist of 100% contributed inventory. The International guidelines historically have recommended that no valuation be placed on goods received from the public for processing and sale, other than the related revenue at the time of sale to the public for their internal reporting. However, for generally accepted accounting principles, it is acknowledged that this inventory does have some value and more current guidance have outlined approaches that may be considered.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Inventories, Continued:

Management calculates an estimated value of inventory based on a retail value method incorporating inventory turnover and retail value assumptions. Inventory consists of:

	<u>2020</u>	<u>2019</u>
Donated inventory	\$ 148,397	\$ 201,587
Purchased inventory	<u>12,798</u>	<u>14,707</u>
Total inventory	<u>\$ 161,195</u>	<u>\$ 216,294</u>

Revenue Recognition:

The Organization has adopted Accounting Standards Update (ASU) No. 2018-08 *Not-for-Profit Entities: Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made (Topic 605)* as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting.

The Organization has also adopted Accounting Standards Update (ASU) No. 2014-09 - *Revenue from Contracts with Customers (Topic 606)*, as management believes the standard improves the usefulness and understandability of the Organization’s financial reporting.

Analysis of various provisions of these standards resulted in no significant changes in the way the Organization recognizes revenue, and therefore no changes to the previously issued audited financial statements were required on a retrospective basis. The presentation and disclosures of revenue have been enhanced in accordance with these standards.

Contributions and grants are recognized when awarded as with or without donor restrictions in accordance with donor specifications. When a restriction expires through accomplishment of purpose or passage of time, the with donor restricted net assets are reclassified to without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

A portion of the Organization’s revenue is derived from cost-reimbursable and grants, which are conditioned upon certain performance requirements and/ or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific grant provisions (see Note 10).

Donated Goods and Services and Donated Land:

HFHSC receives various donated goods and services each year. The value of in-kind donations are recorded at an estimated fair market value, as determined by management, at the time of receipt of the goods or services. No amount is recorded if no objective basis is available to measure the value of the good or service, as determined by management. Donations made to the ReStore are also valued at an estimated fair market value which is equal to total ReStore sales. Donated land is included in contributions and grants revenue. All other in-kind donations are included in donated goods and services.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Construction in Progress:

Costs incurred relating to homes under construction at the end of each year are recorded as construction in progress. Construction costs include the cost of materials and labor purchased by HFHSC. Donated materials are recorded based on their estimated value at the time of receipt. No amounts have been recorded in construction in progress for donated services, in as much as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the construction of the homes.

	2020		2019	
Homes Under Construction - Beginning of Year	5	\$ 287,839	7	\$ 362,587
Additional costs incurred on beginning homes	-	366,018	-	568,623
Homes started during the year	4	531,193	4	178,938
Homes transferred during the year	(5)	(653,857)	(6)	(822,309)
Homes Under Construction - End of Year	4	531,193	5	287,839
Discount		(270,908)		(146,798)
Construction in progress - net		\$ 260,285		\$ 141,041

Anticipated Discount on Future Home Builds:

Discounts are recognized on homes that HFHSC has committed to build for qualified families as costs are incurred. The value of construction in progress is discounted by the average discounted value of mortgages issued (51%).

Homes Held for Lease:

Homes held for lease relates to completed homes occupied by qualified families under lease terms for a period of time before the actual sale of the home. Lease payments received by HFHSC are credited against the purchase price of the home. The discount is recorded to reflect the economic benefit of the zero-interest-mortgage to the purchaser.

	2020		2019	
	0 Home		1 Home	
Lease value of home - gross	\$	-	\$	90,086
Discount		-		(45,944)
	\$	-	\$	44,142

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Property and Equipment:

Property and equipment purchased by HFHSC are carried at cost. Donated property and equipment are recorded at estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to expense as incurred. Additions and betterments over \$1,000 are capitalized.

The cost and related accumulated depreciation of properties sold or otherwise disposed of are removed from the accounts and any gain or loss is reflected in the current year's activities.

	<u>2020</u>	<u>2019</u>
Land, buildings and improvements	\$ 2,288,390	\$ 2,284,085
Equipment	21,342	13,242
Office furniture	105,803	105,803
Vehicles	<u>171,539</u>	<u>226,807</u>
	2,587,074	2,629,937
Less: Accumulated depreciation	<u>(700,705)</u>	<u>(672,535)</u>
	<u>\$ 1,886,369</u>	<u>\$ 1,957,402</u>
Depreciation Expense	<u>\$ 75,533</u>	<u>\$ 80,301</u>

The Organization primarily follows the straight-line method of depreciation utilizing the following lives:

<u>Class</u>	<u>Years</u>
Buildings and improvements	5 - 39
Equipment	5 - 10
Office furniture	3 - 10
Vehicles	5

Functional Expense Allocations:

Expenses are charged to functional areas based on specific-identification when possible. Expenses that cannot be specifically identified to a function are allocated to the functional areas based on factors such as direct relationship of expense, time spent by employees and square footage of space used for various programs.

Program Services:

HFHSC strives to eliminate sub-standard housing through life-skill and homeowner education programs, neighborhood development and raising awareness of housing issues and solutions. HFHSC constructs affordable housing, provides homeowner education to its partner families and transfers the homes to qualified families at cost by providing non-interest bearing mortgage loans.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Functional Expense Allocations, Continued:

Program Services, Continued:

The success of the Organization is ensured by family educational programs, volunteer participation and support of the donor community. These homes serve as catalysts for comprehensive neighborhood development projects in neighborhoods in need.

In addition, the ReStore program's primary goal is to raise money for HFHSC through sales revenue, while also reducing the amount of building materials deposited into landfills. Individuals, as well as construction companies, donate new or used unwanted building materials, keeping them from landfills; and local contractors and do-it-yourselfers then have the option to purchase materials and products at a reduced cost. Revenue from the home repair program and deconstruction projects are reinvested into program services. All revenues go back to HFHSC to support home building programs.

General and Administrative:

Expenses incurred in the day-to-day operations of HFHSC.

Fundraising and Development:

Expenses incurred in raising additional funds for HFHSC.

Income Tax Status:

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption granted by International and operates as a public charity. The Organization is required to operate in conformity with the Code to maintain its tax-exempt status.

Accounting for Uncertainty in Income Taxes:

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken certain tax positions that more-likely-than-not would not be sustained upon examination by applicable taxing authorities. The Organization would recognize interest and penalties accrued, if any, related to unrecognized tax uncertainties in income tax expense. Management has analyzed tax positions taken and has concluded that there are no material uncertain tax positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the financial statements.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Recently Issued Accounting Pronouncements:

In February 2016, the FASB issued ASU 2016-02, Leases. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the balance sheet at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the income statement. This standard will be effective for the year ending March 31, 2023. HFHSC is currently in the process of evaluating the impact of adoption of this ASU on the consolidated financial statements.

Reclassification:

Certain prior year amounts have been reclassified to conform with the current year presentation.

Subsequent Events:

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements.

Subsequent events have been evaluated through August 25, 2020, which is the date the financial statements were available to be issued.

2 Liquidity and Availability

The Organization receives contributions with donor restrictions to be used in accordance with the associated purpose restrictions. In addition, the Organization receives support without donor restrictions; such support has historically represented some of the annual program funding needs. Sales from the ReStore are unrestricted and used for general expenditures as they are received.

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability,
- Maintaining adequate liquid assets, and
- Maintaining sufficient reserves to provide reasonable assurance that long term grant commitments and obligations with donor restrictions that support mission fulfillment will continue to be met, ensuring the sustainability of the Organization.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

2 Liquidity and Availability, Continued

The table below presents financial assets available for general expenditures within one year.

Financial Assets at Year-End:	2020	2019
Cash and cash equivalents	\$ 310,003	\$ 329,730
Investments	402,654	-
Mortgage receivable - current portion	181,795	183,541
Inventory	161,195	216,294
Prepaid expenses and deposits	9,870	10,796
Net working capital	1,065,517	740,361
Less: Amount with donor restriction	(232,713)	(246,062)
Financial Assets Available to Meet General Expenditures Within One Year	\$ 832,804	\$ 494,299

The Organization also has the ability to use available funds on their line-of-credit. As of March 31, 2020, the unused portion of the line-of-credit amounted to \$500,000.

3 Investments

	2020		2019	
	Cost	Market	Cost	Market
Cash and cash equivalents	\$ 251,876	\$ 251,876	\$ -	\$ -
Mutual funds - Government	150,778	150,778	-	-
Total	\$ 402,654	402,654	\$ -	-
Less: Cost		402,654		-
Net Unrealized Gains (Losses) on Marketable Securities		\$ -		\$ -

4 Line-of-Credit

The Organization has a line-of-credit with borrowings up to \$500,000 through September 2022. Interest is charged at prime plus 0.50% (3.75% at year-end). There was \$0 (2020) and \$252,875 (2019) outstanding on the line-of-credit at year-end.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

5 Long-Term Debt

	Current Portion	Total	
	2020	2020	2019
Note payable was entered into by the Organization on January 18, 2013, amounting to \$301,000. Principal and interest payments were due monthly in the amount of \$4,178. The note bore interest at 4.40% and matured on January 18, 2020. The note was secured by the related property.	\$ -	\$ -	\$ 40,927
Note payable was entered into by the Organization and the City of Akron for sewer and water lines on August 16, 2012, amounting to \$13,529. Principal and interest payments are due monthly in the amount of \$147. The note bears interest at 5.38% and matures in October 2022. The City reserves the right to terminate sewer and water service in the event of default of the note.	1,574	4,247	5,739
Note payable was entered into by the Organization and the City of Akron for sewer and water lines on August 16, 2012, amounting to \$13,529. Principal and interest payments are due monthly in the amount of \$147. The note bears interest at 5.38% and matures in October 2022. The City reserves the right to terminate sewer and water service in the event of default of the note.	1,574	4,247	5,739
Note payable was entered into by the Organization and the City of Akron for sewer and water lines on May 9, 2017, amounting to \$15,050. Principal and interest payments are due monthly in the amount of \$162. The note bears interest at 5.28% and matures in June 2027. The City reserves the right to terminate sewer and water service in the event of default of the note.	1,363	11,557	12,850

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

5 Long-Term Debt, Continued

	Current Portion	Total	
	<u>2020</u>	<u>2020</u>	<u>2019</u>
Note payable with Habitat Mortgage Solutions, LLC in the amount of \$1,000,000. Principal and interest payments are due quarterly in the amount of \$30,906. The note bears interest at 4.31% and matures in November 2029. The note is secured by certain mortgage receivables.	<u>41,801</u>	<u>979,869</u>	-
	<u>\$ 46,312</u>	<u>999,920</u>	65,255
Less: Current Portion		<u>46,312</u>	45,206
Total Long-Term Portion		<u>\$ 953,608</u>	<u>\$ 20,049</u>

Maturities of long-term debt are as follows:

	<u>Total</u>
2021	\$ 46,312
2022	91,097
2023	93,658
2024	95,751
2025	99,962
Thereafter	<u>573,140</u>
Total	<u>\$ 999,920</u>

6 Leases

The Organization has various lease agreements for office equipment and a truck through December 2023. Rent expense was \$29,332 (2020) and \$15,576 (2019). Minimum lease payments due under the operating lease obligations are due as follows:

2021	\$ 27,199
2022	14,119
2023	<u>2,441</u>
Total	<u>\$ 43,759</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

7 Net Assets with Donor Restrictions

Net assets with donor restrictions at March 31 consist of the following:

	<u>2020</u>	<u>2019</u>
Donor restricted by purpose:		
Neighborhood Network Revitalization	\$ 54,309	\$ 77,915
Operating support for Adopt a House	<u>178,404</u>	<u>168,147</u>
	<u>\$ 232,713</u>	<u>\$ 246,062</u>

Net assets released from net assets with donor restrictions are as follows:

	<u>2020</u>	<u>2019</u>
Satisfaction of Purpose Restrictions:		
Neighborhood Network Revitalization	\$ 23,606	\$ 23,993
Operating support for Adopt a House	<u>452,627</u>	<u>410,074</u>
	<u>\$ 476,233</u>	<u>\$ 434,067</u>

8 Related Party Transactions

HFHSC is an affiliate of International. As an affiliate, HFHSC is encouraged to contribute (tithe) a portion of its revenues to International for use in carrying out its mission around the world.

HFHSC tithes to International amounted to \$1,400 (2020) and \$10,000 (2019). HFHSC is affiliated with Habitat for Humanity of Ohio ("HFHSC Ohio"). Through the affiliation, HFHSC is encouraged to support Habitat for Humanity of Ohio in carrying out its mission throughout the state.

HFHSC contributions to HFHSC Ohio amounted to \$1,500 (2020) and \$2,500 (2019).

International assesses an affiliate branding fee to all of the affiliates. HFHSC's branding fees amounted to \$15,000 in 2020 and 2019.

9 Retirement Plan

The Organization has a Simple IRA plan covering substantially all employees. The Organization matches employees' contributions of up to 3% of compensation or \$12,500 per employee, whichever is less. The Organization's contributions to the Plan were \$14,029 (2020) and \$15,751 (2019).

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

10 Conditional Grants

HFHSC received a conditional grant from Summit County (“County”) for the Home Investment Partnership Program (“HOME”), contingent upon the new construction of homes and sale to qualified low to moderate income individuals within the County. Revenue is recognized as the conditions are met. HFHSC has recognized revenue of \$5,000 (2020) and \$106,462 (2019). All revenue has been recognized on this grant.

HFHSC has a second conditional grant with the City of Akron (“City”) under the same HOME program. This grant is awarded annually and allows up to \$80,000 (2020) and \$160,000 (2019) of revenue for new construction homes and sale to qualified low income families in the City of Akron. Revenue is recognized as conditions are met. HFHSC has recognized \$200,000 (2020) and \$40,000 (2019) of revenue from this grant. Any revenue not recognized during the year may be carried over to the following year upon approval by the City.

HFHSC has a third conditional grant with the City of Akron to implement a Deconstruction Project. A total amount of \$56,000 (2020) and \$0 (2019) was contingent upon assignment of properties to be deconstructed by the City of Akron’s Planning Department and completion of the deconstruction. HFHSC has recognized revenue of \$6,160 (2020) and \$4,760 (2019).

HFHSC had a fourth conditional grant with the Summit County Land Reutilization Corporation (“SCLRC”). A total of \$25,000 (2020) and \$0 (2019) was contingent upon deconstruction services as assigned by SCLRC. HFHSC has recognized revenue of \$0 (2020) and \$10,920 (2019).

HFHSC had a conditional grant with the City of Cuyahoga Falls through December 2018. A total amount of up to \$50,000 was awarded in July 2017 for assisting a minimum of eight qualified HFHSC homeowners within the City of Cuyahoga Falls under the A Brush with Kindness rehabilitation program (see Note 1). Approximately \$4,000 (2020) and \$11,000 (2019) of revenue has been recognized under this grant. No additional amounts are expected to be awarded under this grant.

The Organization was awarded a capacity build reimbursement grant of \$100,000 for the period of April 1, 2017 to March 31, 2020. The Organization will receive the funds over the three-year period for salary reimbursement for the build or repair of 65 homes. Approximately \$18,000 (2020) and \$36,000 (2019) of revenue has been recognized under this grant. All revenue has been recognized on this grant.

11 Subsequent Events

With the COVID-19 outbreak in the United States, economic uncertainties have arisen. The extent of the impact of COVID-19 on the Organization’s operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, its impact on the Organization’s donors and the general economy, all of which are uncertain. Habitat for Humanity of Summit County, Inc. generally is not considered an Essential Business, as that term has been defined by most States that have implemented Stay at Home or Shelter in Place orders. As a result, the Organization was required to close the ReStore and stop construction on home builds in mid-March. As of mid-May 2020, the Organization was able to restart a portion of its operations and, by early June, re-open the ReStore. Therefore, the extent to which COVID-19 may impact the Organization’s financial condition or results of operations is unknown and cannot be reasonably estimated at this time.