

GLOUCESTER COUNTY HABITAT FOR HUMANITY

**FINANCIAL STATEMENTS FOR THE YEAR
ENDED JUNE 30, 2019 AND**

INDEPENDENT AUDITORS' REPORT

Ditmars, Perazza & Co.
CERTIFIED PUBLIC ACCOUNTANT

Kenneth M. Ditmars, CPA

Telephone: (609) 265-8698
Fax: (609) 265-8621

E-mail: KDIT478@aol.com

Office Address
12 Oak Tree Court
Westampton, NJ 08060

Mailing Address
P.O. Box 478
Rancocas, NJ 08073-0478

Independent Auditor's Report

**Gloucester County Habitat for
Humanity, Inc.:**

November 12, 2019

To the Officers and Directors:

Report on Financial Statements

We have audited the accompanying financial statements of **Gloucester County Habitat for Humanity Inc.**, which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, of functional expenses, of cash flows for the year then ended, and the related notes of 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 the 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 audit. We conducted our audit 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 the **Gloucester County Habitat for Humanity, Inc.** as of June 30, 2019, and the results of its operations and its cash flows for the year that ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the **Gloucester County Habitat for Humanity, Inc.'s** 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 9, 2018. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Ditmars, Perazza & Co.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2019**

(With summarized totals for 2018)

	<u>2019</u>	<u>2018</u>
ASSETS:		
Cash and cash equivalents	\$ 261,854	\$ 127,078
Mortgages receivable	954,479	996,678
Unamortized discount on mortgage	<u>(573,415)</u>	<u>(601,016)</u>
Mortgages receivable - Net	<u>381,064</u>	<u>395,662</u>
Grants receivable	66,287	5,000
Other receivables and assets	5,825	5,347
Construction work in progress	313,474	193,971
Certificate of deposit - restricted	30,482	30,000
Property and equipment net of depreciation of \$ 177,879	598,006	626,419
TOTAL ASSETS	<u><u>\$ 1,656,992</u></u>	<u><u>\$ 1,353,477</u></u>
LIABILITIES AND NET ASSETS:		
Liabilities		
Account payable	\$ 27,269	\$ 6,897
Escrow deposits (advances) - net	(9,100)	(1,652)
Closing cost escrows	9,225	8,425
Refundable advances - grants	66,287	-
Line of credit	-	-
Mortgage payable - GCSF	170,220	207,491
Total Liabilities	<u>263,901</u>	<u>221,161</u>
Net Assets:		
Without donor restrictions	1,393,091	1,162,316
Total Net Assets	<u>1,393,091</u>	<u>1,162,316</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,656,992</u></u>	<u><u>\$ 1,383,477</u></u>

The accompanying footnotes are an integral part of the financial statements.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019**

(With summarized totals for 2018)

SUPPORT AND REVENUE:	Without Donor Restrictions	-	Totals 2019	Totals 2018
Direct Public Support				
Individuals, business and other	\$ 34,196		\$ 34,196	\$ 45,107
United Way	1,517		1,517	2,696
Grants	168,801		168,801	67,505
Property donations	55,400		55,400	93,300
Income from Restore sales - net	179,300		179,300	176,037
Special events	63,908		63,908	55,587
Sale of homes to partner families	145,000		145,000	581,500
Sale of home previously sold	43,257		43,257	-
Investment income	614		614	111
Other income	3,152		3,152	177
Mortgage interest discount amortization	27,601		27,601	24,742
			-	
TOTAL SUPPORT AND REVENUE	<u>722,746</u>	<u>-</u>	<u>722,746</u>	<u>1,046,762</u>
EXPENSES:				
Program Services	285,928		285,928	875,280
Administrative	141,036		141,036	136,272
Fund Raising	65,007		65,007	61,591
TOTAL EXPENSES	<u>491,971</u>	<u>-</u>	<u>491,971</u>	<u>1,073,143</u>
CHANGE IN NET ASSETS	230,775	-	230,775	(26,381)
NET ASSETS, BEGINNING OF YEAR:	1,162,316		1,162,316	1,188,697
NET ASSETS, END OF YEAR	<u>\$ 1,393,091</u>	<u>\$ -</u>	<u>\$ 1,393,091</u>	<u>\$ 1,162,316</u>

The accompanying footnotes are an integral part of the financial statements.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019**

(With summarized totals for 2018)

	Program Services	Management & General	Fund Raising	Totals 2019	Totals 2018
Construction costs	\$ 101,183			\$ 101,183	\$ 484,857
Home sale adjustment	64,000			64,000	203,640
Mortgage discount expense	-			-	85,781
Affiliate expenses	16,436			16,436	15,000
Insurance	10,992	\$ 17,169		28,161	32,639
Equipment rental and small tools	1,314			1,314	372
Other program	10,322			10,322	15,023
Personnel costs	38,188	87,889	\$ 29,123	155,200	152,137
Office expenses		2,777	224	3,001	2,482
Professional services		9,082		9,082	4,981
Computer expenses		3,416	1,014	4,430	3,456
Telephone & fax		4,990	437	5,427	4,252
Travel, meals and conferences	986	1,196	2,029	4,211	311
Warehouse expenses	9,749			9,749	9,056
Depreciation	25,571	2,842		28,413	15,596
Mortgage and other interest		1,485		1,485	3,109
Vehicle	3,883	4,340	881	9,104	5,114
Community relations	1,323			1,323	768
Volunteer administration	1,981			1,981	3,895
Postage and freight		1,028		1,028	808
Special events		2,664	29,591	29,591	24,818
Other		2,158		2,664	3,310
Fees		1,708		3,866	1,738
	<u>\$ 285,928</u>	<u>\$ 141,036</u>	<u>\$ 65,007</u>	<u>\$ 491,971</u>	<u>\$ 1,073,143</u>

The accompanying footnotes are an integral part of the financial statements.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2019**

	2019
FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ 230,775
Add - depreciation	28,413
Mortgage payments and adjustments	42,199
New mortgage receivable loan	-
Change in grants and other receivables	(61,765)
Change in other receivables and assets	
Change in certificate of deposit - Restricted	(482)
Change accounts payable	20,372
Change in escrow deposits	(6,648)
Change in refundable advances	66,287
Change in International Habitat Projects	-
	319,151
FROM INVESTING ACTIVITIES:	
Mortgage discount expense	-
Mortgage discount amortization	(27,601)
Change in construction work in progress	(64,103)
Donated property	(55,400)
Property additions - net	-
	(147,104)
FROM FINANCING ACTIVITIES:	
Payments of mortgage principle	(37,271)
Payment of line of credit	-
	(37,271)
CHANGE IN CASH AND CASH EQUIVALENTS	134,776
BEGINNING CASH AND CASH EQUIVALENTS	127,078
ENDING CASH AND CASH EQUIVALENTS	\$ 261,854
SUPPLEMENTAL INFORMATION:	
Interest paid	\$ 7,449

The accompanying footnotes are an integral part of the financial statements.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL, STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2019**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose - Gloucester County Habitat for Humanity (GCHH) is a not-for-profit organization affiliated with Habitat International, Inc. Habitat acquires land and buildings for construction and renovation into affordable housing. Materials and labor are largely contributed and volunteered. In addition, the qualified partner family must provide volunteer labor as their sweat equity. GCHH assists the partner family in obtaining a mortgage on the property.

Basis of Accounting

The financial statements of GCHH have been prepared on the accrual basis of accounting.

Basis of Presentation

During the year GCHH adopted the new standards issued in August 2016 relating to the Presentation of Financial Statements of Not-for-Profit entities. These new standards are intended to improve the presentation of financial statements of not-for-profit (NFP) entities. The ASU eliminates the distinction between resources with permanent restrictions and those with temporary restrictions from the face of NFP financial statements by reducing the current three net asset classes (unrestricted, temporarily restricted, and permanently restricted) to two classes (net assets with donor restrictions and net assets without donor restrictions). The ASU also requires additional information to be disclosed about expense classifications and liquidity and availability of resources.

New Accounting Pronouncements Not Yet Adopted

Revenue from Contracts with Customers – In May 2014, the Financial Accounting Standards Board issued guidance that replaces the existing accounting standards for revenue recognition. The guidance requires an organization to recognize revenue to depict the transfer of goods or services to customers in an amount that reflects the consideration it entitled to receive in exchange for those goods or services. The standard is effective for fiscal years beginning after December 15, 2018 and may be adopted either by restating all years presented in the Organization's financial statements or by recording the impact of adoption as an adjustment to retained earnings at the beginning of the fiscal. Early application is permitted. GCHH is assessing the potential impact this guidance will have on its financial statements.

Leases – Issued in February 2016, Accounting Standards Update (ASU) No. 2016-02 requires lessees to recognize right-of-use assets and lease liabilities on the balance sheet

for the rights and obligations created by all leases with terms of more than 12 months. This new accounting will apply to both types of leases-capital (or finance) leases and operating leases. Previously, accounting principles generally accepted in the United State of America has required only capital leases to be recognized on lessee balance sheets. The standard will take effect for fiscal years beginning after December 15, 2019, and for interim periods within fiscal years beginning after December 15, 2020. Early application is permitted. The GCHH is assessing the potential impact this guidance will have on it financial statements.

Contributions - In June 2018, FASB issued ASU 2018-08 “*Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*”. The new guidance assists not-for-profit entities in determining whether to account for a transfer of assets as a contribution or an exchange transaction. The update also clarifies that a contribution is conditional if the agreement includes both a barrier (as defined) and a right of return or release. The standard is effective for transactions in which the entity serves as a resource recipient for annual periods beginning after December 15, 2018, and interim periods beginning after December 15, 2019, and as a resource provider for annual periods beginning after December 15, 2019, and interim periods beginning after December 15, 2020.

Donor Imposed Restrictions

All contributions are considered to be available for use unless specifically restricted by the donor. Amounts received that are restricted for future periods or are restricted by the donor for specific purposes are reported as net assets with donor restrictions. When a donor restriction expires, that is when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions in the statement of activities as net assets released from restrictions. GCHH follows the policy of showing donor contributions whose restrictions are met in the same reporting period as donations without donor restrictions..

Cash and Cash equivalents

GCHH considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of checking accounts and a money market account.

Mortgages receivable

Mortgages receivable consists of non-interest bearing mortgages which are secured by real estate and receivable in monthly installments over the life of the mortgage.

Contributions

Unconditional promises to give are recognized as revenue when the underlying promises are received by GCHH. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time

restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services and Materials

Donated services are recognized as contributions in accordance with standards of the Financial Accounting Standards Board, if the services (a) create or enhance non financial assets or (b) require specialized skills, as performed by people with those skills, and would otherwise be purchased by GCHH. GCHH does not consider that donated services by individuals with specialized skills to meet this criteria in that they would generally not be required to purchase the services. In addition a substantial number of volunteers have made significant contributions of their time to GCHH's program and supporting services. The value of this contributed time is not reflected in these financial statements since it does not meet the above criteria.

GCHH also receives donated building materials which are used in home construction. These donations are generally not significant and therefore are not included in the accompanying statements.

Transfers to Homeowners

Sales to homeowners are recorded at the gross mortgage amount. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount is recognized as interest income over the term of the mortgage.

Construction in Progress/ Project Income

Direct costs associated with the renovation of properties are capitalized. When the property is sold the related costs are offset against the sales price and the excess revenues or expenses are reflected in the statement of activities. Any excess revenues from the sale of a property are used to offset overhead costs and to provide for the continuation of GCHH's mission. When the property is sold the cost of construction is reflected in the Statement of Activities.

Property and Depreciation

Property and equipment are stated at cost. Depreciation is provided using the straight line method over the estimated useful lives of the related asset.

Income Taxes

GCHH has received exemption from income taxes under Section 501 (c) (3) of the Internal Revenue Code and qualifies as a public charity.

Refundable Advances – Grants

GCHH treats any grant funds that have not been earned and could be returned to the grantor if not spent as refundable advances – grants in the accompanying Statement of Financial Position.

Estimates in the Financial Statements

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 disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Financial Accounting Standards Board has issued a standard that applies to annual financial periods ending after June 15, 2009. These standards establish principles setting forth the period after the balance sheet date during which management shall evaluate events and transactions that may occur for potential recognition or disclosure in the financial statements. For the purposes of this accounting standard, GCHH has evaluated subsequent events through November 12, 2019.

Fair Value Measurements

GCHH has adopted the Financial Accounting Standards Board's standards that apply to all assets and liabilities that are being measured and reported on a fair value basis. Under the standards new disclosures are required that establish a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. The standards enable the reader of the financial statements to access the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

The standards require that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

1. Level 1: Quoted market prices in active markets for identical assets or liabilities
2. Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
3. Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, GCHH performs a detailed analysis of the assets and liabilities that are subject to the Standards.

The carrying amounts of financial instruments including cash and cash equivalents, receivables, prepaid and payables approximates fair value due to the short maturity of these instruments.

Income Taxes

In June 2006 the Financial Accounting Standards Board issued FIN 48, Accounting for Uncertainty in Income Taxes, which prescribes how an entity should measure, recognize, present and disclose in its financial statements tax positions that an organization has

taken or expects to take on its information returns. FIN 48 is effective for years beginning after December 31, 2008 for nonpublic entities.

GCHH regularly reviews and evaluates its tax positions taken in previously filed information returns with regard to issues affecting its tax exempt status, unrelated business income and related matters. Based on GCHH's evaluation of their positions relating to any relevant matters no tax benefits or liabilities are required to be recognized in accordance with FIN 48.

Advertising

Advertising costs are expensed as incurred.

2. MORTGAGE RECEIVABLE

The mortgage receivable balance at June 30, 2019 consists of 13 loans on properties developed by GCHH. These loans are non interest bearing loans with original maturities of 30 years. The balance receivable for these loans was \$ 954,479 at June 30, 2019.

The amount of principal that will be collected on the above mortgages is approximately \$ 36,000 per year for each of the next five years.

Effective July 1, 2013 GCHH has contracted with a service provider to service the loans and to collect the payments and to pay the escrow.

3. CONSTRUCTION IN PROGRESS

As of June 30, 2019 GCHH was in the process of renovating a number of properties for future sales under the program.

4. DISCOUNT ON MORTGAGES RECEIVABLE

GCHH accounts for their mortgages in accordance with the Habitat for Humanity International's U.S. Affiliate Accounting Policy Manual. Under this guide the non interest bearing mortgages are discounted to their present value at the time the mortgage is issued. The discounted amount is amortized over the life of the mortgage using a imputed interest rate, averaging 8 % on a straight line basis.

The following reflects the activity in the related accounts for the year ended June 30, 2019:

Unamortized Discount on Mortgages:

Balance at June 30, 2018	\$ 601,016
Discount on Mortgages Issued in 2019	-
Mortgage Discount Amortization for 2019	<u>(27,601)</u>
Balance at June 30, 2019	<u>\$ 573,415</u>

5. ZERO EQUIVALENT MORTGAGES

Commencing in 2012 GCHH entered into an arrangement with several local financial institutions to provide mortgages to their partner families for the purchase of the completed home. The mortgages are discounted by the financial institution to achieve a monthly payment that would be the equivalent of the amount of the payment if GCHH took back a non interest bearing mortgage. As a further protection for GCHH they enter into a second mortgage (silent second) with the partner family that is the difference between the sales price of the home and amount of the financial institutions mortgage. If the property were sold, GCHH would have the right to receive this difference. One mortgage was closed in 2019 under this arrangement with silent second mortgages of \$ 64,000. This amount is treated as a Home Sale Adjustment in the accompanying financial statements.

6. MORTGAGE PAYABLE – INVESTORS BANK

GCHH has entered into a mortgage with a local financial institution to finance the acquisition and renovation of the property that they operate from in Pitman, NJ. The mortgage is payable in monthly installments of \$ 2,893.45 including interest computed at the rate of 3.89 %. The original loan date is 3/25/2011 and the maturity date is 4/1/2031. Their property in Pitman is secured for the loan. Future minimum principle payments for the next five years are as follows:

June 30, 2020	\$ 23,319
June 30, 2021	24,244
June 30, 2022	25,026
June 30, 2023	26,017
June 30, 2024	27,048

7. LINE OF CREDIT

In March 2011 GCHH entered into a line of credit arrangement with a local financial institution in the amount of \$ 150,000. Interest on any outstanding balance is computed using a variable NY prime rate as published in the Wall Street Journal. As of June 30, 2019 no amount was outstanding on the line.

8. FUNCTIONAL ALLOCATION OF EXPENSES

The costs of providing the programs and activities have been summarized on a functional basis in the statement of activities. The statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. These expenses are allocated on a reasonable basis this is consistently applied based on effort, time or usage.

9. TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

GCHH annually remits a portion of its unrestricted contributions (excluding in kind contributions) to Habitat for Humanity International. GCHH remitted to Habitat for Humanity International a SOSI (Stewardship and Organization Sustainability Initiative) fee of \$ 15,000 for additional support provided by them. This amount is included in direct program costs in the Statement of Activities. The total paid to Habitat International amounted to \$ 16,436 for the year.

10. RESTORE PROGRAM

In a prior year GCHH commenced a “ReStore Program”. Under this program GCHH sells donated building materials and household items to the public at retail. Income that is received from this program is used to support GCHH’s building program. Financial results of the ReStore operation is presented net of direct expenses in the accompanying statement of activities. The mission of the ReStore operation is to offset the management & general expenses of the Organization.

11. LEONA AVENUE

During the prior year GCHH was donated a property (land and building) located in Woodbury, NJ. The property was valued at \$ 215,000 at the time of the donation. This amount is included in the Statement of Activities. Additional costs have been incurred in the amount of approximately \$ 100,000. The property is to be used as a construction warehouse as well as a storage site for the Restore Program.

12. CALCULATION OF OVERHEAD RATIO

The overhead ratio is calculated as follows. In computing the ratio, GCHH deducts the Net Income from the Restore Program from both the numerator and denominator, as the purpose of the Restore Program is to offset the administrative expenses of GCHH.

Numerator:

Administrative Expenses	\$ 141,036
Fund Raising Expenses	65.007
Less – Net Income from Restore Program	<u>(179,300)</u>
Total Numerator	26,743

Denominator:

Total Support and Revenue –net of Restore	\$ 543,446
---	------------

OVERHEAD RATIO 5.0 %

13. COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in

conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the GCHH'S financial statements for the year ended June 30, 2018.

14. LIQUIDITY AND AVAILABILITY

Financial assets available for general expenditures within one year of the statement of financial position date comprise the following:

Cash and cash equivalents	\$ 261,854
Grants and accounts receivable	66,287

Total Financial Assets Available for General Expenditures	\$ 328,141
	=====

GCHH regularly monitors liquidity to meet its operating needs. GCHH has various sources of liquidity at its disposal, including cash and cash equivalents and a line of credit.

For purposes of analyzing resources available to meet general expenditures over a 12 month period, GCHH considers all expenditures related to its ongoing activities of providing social services as well as the conduct of services undertaken to support these activities to be general expenditures.