

**RARITAN VALLEY
HABITAT FOR HUMANITY, INC.**

**FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION**

JUNE 30, 2019 AND 2018



SOBEL & CO. LLC

CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Raritan Valley Habitat for Humanity, Inc.
Somerville, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of Raritan Valley Habitat for Humanity, Inc. ("Organization"), a nonprofit organization, which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and changes in net assets, 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.

Auditors' 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 auditors' 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 auditors consider 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 Organization as of June 30, 2019 and 2018, and 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.

Emphasis of Matter

The Organization adopted Financial Accounting Standards Board, *Presentation of Financial Statements of Not-for-Profit Entities*, as described in Note 2. Our opinion is not modified with respect to this matter.

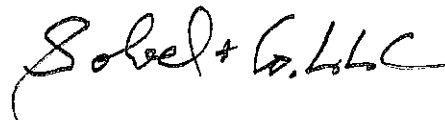
Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, shown on page 20, as required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from, and relates directly to, the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 20, 2020, on our consideration of Raritan Valley Habitat for Humanity, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control over financial reporting and compliance.



Certified Public Accountants

Livingston, New Jersey
January 20, 2020

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION

ASSETS	June 30,	
	2019	2018
CURRENT ASSETS:		
Cash	\$ 823,648	\$ 874,170
Mortgages receivable, current portion	200,164	187,356
Grants receivable	10,975	3,211
Construction in progress:		
Land	41,660	288,747
Construction costs	62,401	241,727
Prepaid expenses	20,951	11,442
Total Current Assets	<u>1,159,799</u>	<u>1,606,653</u>
CONSTRUCTION EQUIPMENT, Net	<u>54,158</u>	<u>36,109</u>
OTHER ASSETS:		
Mortgages receivable, net of current portion	1,329,370	1,284,722
Security deposits	20,000	20,000
Total Other Assets	<u>1,349,370</u>	<u>1,304,722</u>
	<u>\$ 2,563,327</u>	<u>\$ 2,947,484</u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES:		
Accounts payable and accrued expenses	\$ 65,428	\$ 31,084
Notes payable, current portion	39,923	41,384
Total Current Liabilities	<u>105,351</u>	<u>72,468</u>
LONG-TERM LIABILITIES:		
Notes payable, net of current portion	<u>405,189</u>	<u>443,582</u>
Total Liabilities	<u>510,540</u>	<u>516,050</u>
COMMITMENTS AND CONTINGENCIES		
NET ASSETS:		
Without donor restrictions	1,831,677	2,231,434
With donor restrictions	221,110	200,000
Total Net Assets	<u>2,052,787</u>	<u>2,431,434</u>
	<u>\$ 2,563,327</u>	<u>\$ 2,947,484</u>

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support:			
Public support:			
Contributions	\$ 160,310	\$ 28,343	\$ 188,653
Government grants	-	76,120	76,120
Grants from public support	-	61,748	61,748
Donated materials and services	-	48,344	48,344
Donated land	-	29,500	29,500
Special event revenue, net of direct costs of \$22,617	112,308	-	112,308
	<u>272,618</u>	<u>244,055</u>	<u>516,673</u>
Other revenue:			
Interest income	174	-	174
Imputed interest from mortgage notes receivable	117,650	-	117,650
ReStore income	442,027	6,967	448,994
Miscellaneous	3,303	-	3,303
	<u>563,154</u>	<u>6,967</u>	<u>570,121</u>
Net assets released from restrictions	229,912	(229,912)	-
Total Revenue and Other Support	<u>1,065,684</u>	<u>21,110</u>	<u>1,086,794</u>
Homes Sales:			
Gross proceeds	280,000	-	280,000
Cost of homes	(632,464)	-	(632,464)
Excess of costs over proceeds	<u>(352,464)</u>	<u>-</u>	<u>(352,464)</u>
EXPENSES:			
Program services	922,802	-	922,802
Management and general	94,168	-	94,168
Fundraising	96,007	-	96,007
Total Expenses	<u>1,112,977</u>	<u>-</u>	<u>1,112,977</u>
CHANGES IN NET ASSETS	(399,757)	21,110	(378,647)
NET ASSETS - Beginning of year	<u>2,231,434</u>	<u>200,000</u>	<u>2,431,434</u>
NET ASSETS - End of year	<u>\$ 1,831,677</u>	<u>\$ 221,110</u>	<u>\$ 2,052,787</u>

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Other Support:			
Public support:			
Contributions	\$ 103,048	\$ 241,590	\$ 344,638
Government grants	-	146,159	146,159
Grants from public support	-	10,000	10,000
Donated materials and services	-	51,253	51,253
Special event revenue, net of direct costs of \$23,606	89,532	-	89,532
	<u>192,580</u>	<u>449,002</u>	<u>641,582</u>
Other revenue:			
Interest income	420	-	420
Imputed interest from mortgage notes receivable	118,785	-	118,785
ReStore income	1,127	-	1,127
Miscellaneous	5,944	-	5,944
	<u>126,276</u>	<u>-</u>	<u>126,276</u>
Net assets released from restrictions	252,577	(252,577)	-
Total Revenue and Other Support	<u>571,433</u>	<u>196,425</u>	<u>767,858</u>
EXPENSES:			
Program services	295,652	-	295,652
Management and general	83,644	-	83,644
Fundraising	77,061	-	77,061
Total Expenses	<u>456,357</u>	<u>-</u>	<u>456,357</u>
CHANGES IN NET ASSETS	115,076	196,425	311,501
NET ASSETS - Beginning of year	<u>2,116,358</u>	<u>3,575</u>	<u>2,119,933</u>
NET ASSETS - End of year	<u>\$ 2,231,434</u>	<u>\$ 200,000</u>	<u>\$ 2,431,434</u>

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	ReStore	Other Program Services	Total Program Services	Management and General	Fundraising	Total
Payroll and fringe benefits:						
Payroll	\$ 113,625	\$ 208,459	\$ 322,084	\$ 43,015	\$ 79,413	\$ 444,512
Payroll tax	13,212	21,702	34,914	4,478	8,268	47,660
Subtotal Payroll	126,837	230,161	356,998	47,494	87,680	492,172
Discount on mortgage note receivable	-	144,487	144,487	-	-	144,487
Contribution to Habitat for Humanity International, Inc.	-	44,717	44,717	-	-	44,717
Professional fees	-	-	-	15,928	-	15,928
Interest expense	25,265	-	25,265	-	-	25,265
Insurance	483	29,884	30,367	-	-	30,367
Utilities	27,318	-	27,318	2,911	-	30,229
Office expense	10,449	34	10,483	11,765	1,398	23,646
Office equipment and rental	1,276	6,534	7,810	3,170	-	10,980
Maintenance and repair	76,306	-	76,306	-	-	76,306
Travel	353	-	353	1,575	3	1,931
Vehicle expense	13,272	-	13,272	-	-	13,272
Office rent	83,900	-	83,900	11,325	-	95,225
Marketing	17,853	-	17,853	-	-	17,853
Fundraising costs	-	-	-	-	6,926	6,926
Miscellaneous	41,182	27,309	68,491	-	-	68,491
Total Expenses before Depreciation	424,494	483,126	907,620	94,168	96,007	1,097,795
Depreciation	9,900	5,282	15,182	-	-	15,182
Total Expenses	\$ 434,394	\$ 488,408	\$ 922,802	\$ 94,168	\$ 96,007	\$ 1,112,977

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	ReStore	Other Program Services	Total Program	Management and General	Fundraising	Total
Payroll and fringe benefits:						
Payroll	\$ -	\$ 164,643	\$ 164,643	\$ 33,993	\$ 62,852	\$ 261,488
Payroll tax	-	16,130	16,130	3,476	7,138	26,744
Health insurance	-	-	-	-	-	-
Subtotal Payroll	-	180,773	180,773	37,469	69,990	288,232
Contribution to Habitat for Humanity International, Inc.	-	35,001	35,001	-	-	35,001
Professional fees	-	-	-	18,650	-	18,650
Interest expense	-	13,405	13,405	-	-	13,405
Insurance	-	23,266	23,266	-	-	23,266
Utilities	-	-	-	2,985	-	2,985
Office expense	-	116	116	10,419	1,096	11,631
Office equipment and rental	-	3,068	3,068	3,524	-	6,592
Travel	-	1,653	1,653	997	-	2,650
Office rent	-	-	-	9,600	-	9,600
Fundraising costs	-	-	-	-	5,975	5,975
Miscellaneous	7,348	25,381	32,729	-	-	32,729
Total Expenses before Depreciation	7,348	282,663	290,011	83,644	77,061	450,716
Depreciation	-	5,641	5,641	-	-	5,641
Total Expenses	\$ 7,348	\$ 288,304	\$ 295,652	\$ 83,644	\$ 77,061	\$ 456,357

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS

	Year Ended June 30,	
	2019	2018
CASH FLOWS PROVIDED BY (USED FOR):		
<u>OPERATING ACTIVITIES:</u>		
Changes in net assets	\$ (378,647)	\$ 311,501
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	15,182	5,641
Imputed interest discount	144,487	-
Imputed interest income	(117,650)	(118,785)
Transfer to homeowners for mortgages	(280,000)	-
Cost of homes sold	632,464	-
Changes in certain assets and liabilities:		
Grants receivable	(7,764)	2,688
Pledges receivable	-	2,000
Prepaid expenses	(9,509)	(5,362)
Security deposits	-	(18,923)
Accounts payable and accrued expenses	34,344	2,464
Net Cash Provided by Operating Activities	<u>32,907</u>	<u>181,224</u>
<u>INVESTING ACTIVITIES:</u>		
Expenditures for land and construction	(206,051)	(189,797)
Purchase of fixed assets	(33,231)	(25,500)
Mortgage payments received	195,707	194,964
Net Cash Used for Investing Activities	<u>(43,575)</u>	<u>(20,333)</u>
<u>FINANCING ACTIVITIES:</u>		
Proceeds from loans payable	-	504,900
Payments on notes payable	(39,854)	(21,706)
Net Cash (Used for) Provided by Financing Activities	<u>(39,854)</u>	<u>483,194</u>
NET (DECREASE) INCREASE IN CASH	(50,522)	644,085
CASH:		
Beginning of year	874,170	230,085
End of year	<u>\$ 823,648</u>	<u>\$ 874,170</u>
SUPPLEMENTAL CASH FLOWS DISCLOSURE:		
Interest paid	<u>\$ 25,265</u>	<u>\$ 12,626</u>

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

NOTE 1 - NATURE OF BUSINESS:

Raritan Valley Habitat for Humanity, Inc. (“Organization”) is a not-for-profit organization that builds and preserves affordable homes in Somerset and Hunterdon counties (New Jersey) in partnership with low- and moderate-income homeowners and the community. The Organization is an affiliate of Habitat for Humanity International, Inc. During late 2018, the Organization opened a Habitat for Humanity ReStore in Manville, Somerset County. A Habitat Restore sells new and gently-used, donated furniture, appliances, home décor and building supplies to the public at a fraction of their retail prices. It benefits the community by providing high-quality items at affordable prices, generating proceeds to fund the building and repair of more affordable homes, and keeping items out of landfills.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Financial Statement Reporting for Nonprofits:

The Organization adopted the Financial Accounting Standards Board’s (“FASB”), *Presentation of Financial Statements of Not-for-Profit Entities*, in 2019. This guidance is intended to improve the net asset classification requirements and the information presented in the financial statements and notes about a not-for-profit entity’s liquidity, financial performance, and cash flows. Main provisions of this guidance include: presentation of two classes of net assets versus the previously required three; recognition of capital gifts for construction as a net asset without donor restrictions when the associated long-lived asset is placed in service; and recognition of underwater endowment funds as a reduction in net assets with donor restrictions. The guidance also enhances disclosures for Board-designated amounts, composition of net assets without donor restrictions, liquidity, and expenses by both their natural and functional classifications.

As a result of the adoption of *Presentation of Financial Statements of Not-for-Profit Entities*, net assets as of June 30, 2018, were reclassified as follows:

	Without Donor Restrictions	With Donor Restrictions	Total Net Assets
Net Asset Classifications, as Previously Presented:			
Unrestricted	\$ 2,231,434	\$ -	\$ 2,231,434
Temporarily restricted	-	200,000	200,000
Total Net Assets	<u>\$ 2,231,434</u>	<u>\$ 200,000</u>	<u>\$ 2,431,434</u>

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Financial Statement Presentation:

Net assets and revenue, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions - Net assets not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or the passage of time. Also, other net assets subject to donor-imposed stipulations that be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Grants Receivable:

Grants receivable is stated at the amount management expects to collect from outstanding balances. The Organization charges uncollectible grants receivable to operations when determined to be uncollectible. Management has evaluated the balances due and determined that no allowance is necessary at June 30, 2019 or 2018.

Mortgage Notes Receivable:

Loans are extended to families purchasing homes constructed by the Organization. These mortgages to homeowners do not bear interest and generally have a maximum life of 30 years. As of the date of loan closing, the note's estimated future cash flows are discounted using an interest rate stipulated by Habitat for Humanity International, Inc. in order to compute the present value, which facilitates the combining of all affiliated financial statements by Habitat for Humanity International, Inc. The resulting discount is recorded as an expense upon closing and is adjusted annually to reflect the present value of estimated future cash flows. Adjustments to discounts are recorded as interest income.

The Organization reviews mortgage notes receivable for collectability based on previous experience and determinations by the Board of Directors. In management's opinion, the collateral is sufficient to enable the Organization to realize the mortgage notes receivable without any allowance.

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Construction in Progress:

Construction in progress represents housing projects underway that fulfill the Organization's mission. All direct costs incurred relating to construction are accumulated in this account until construction is completed. At the time of sale, the total cost is reflected on the statements of activities and changes in net assets as cost of homes sold on a specific identification basis. Occasionally, when development is deemed not to be feasible, the Organization charges these costs to expense.

Property and Equipment:

Property and equipment is stated at cost. Significant additions, renewals, and betterments greater than \$1,000 are capitalized, while replacements, maintenance, and repairs that do not improve or extend the life of an asset are expensed. Depreciation is provided using the straight-line method of the estimated useful lives ranging from 5 to 7 years. In the absence of donor-imposed restrictions on the use of the asset, gifts of long-lived assets are reported as unrestricted support.

Donated Materials and Services:

Building materials and services are donated for use in construction and other projects. Amounts are reported in the financial statements for voluntary donations of services when those services create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills and which would typically be purchased if not provided by donation. Donated materials are reported at their fair value at the time of donation and are included in the overall cost basis of each construction project. A majority of the labor that goes into home construction is provided by volunteers and is not included in the cost basis of each construction project. For the years ended June 30, 2019 and 2018, the Organization received a total of 8,104 and 8,222 volunteer labor, office and committee hours, respectively.

Notes Payable:

The Organization discounts below-market notes from governmental agencies, using a market rate consistent with a rate from a commercial bank at the time the note was initiated.

Inventory:

Inventory associated with the Habitat for Humanity ReStore consists of donated goods, building materials, furniture, appliances and other household goods. Donated inventory is not recorded until it is sold by the Organization, when there is an objective and measurable basis for determining fair value.

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Contributions:

Contributions, including unconditional promises to give, are recorded as made. All contributions are available for unrestricted use unless specifically restricted by the donor. 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 and reported in the statements of activities and changes in net assets as net assets released from restrictions.

Cost of Homes:

The gross amount of each mortgage note receivable is based on Habitat for Humanity International, Inc.'s home pricing guidelines. Construction and land costs exceeding that amount are expensed in the year of closing.

Use of Estimates:

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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. These estimates and assumptions are based on management's best estimates and judgment. Actual results could differ from those estimates.

Recent Accounting Pronouncements:

The FASB issued an accounting pronouncement, *Revenue from Contracts with Customers*, which is a comprehensive new revenue recognition standard that will supersede existing revenue recognition guidance. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. It will be effective for the Organization for the year ended June 30, 2020. The Organization is currently evaluating the effect the new standard will have on the financial statements.

The FASB issued an accounting pronouncement, *Leases*, which requires lessees to recognize a right-of-use asset and lease liability on the balance sheet for all leases with a term longer than 12 months. Under this new pronouncement, a modified retrospective transition approach is required, and the new standard is applied to all leases existing at the date of initial application. The standard is effective for annual reporting periods beginning after December 15, 2020. The Organization is currently evaluating the effect the provisions of this standard will have on the financial statements.

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES: (Continued)

Income Tax Status:

The Organization is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code.

The Organization follows standards that provide clarification on accounting for uncertainty in income taxes recognized in the Organization's financial statements. The guidance prescribes a recognition threshold and measurement attribute for the recognition and measurement of a tax position taken, or expected to be taken, in a tax return, and also provides guidance on derecognition, classification, interest and penalties, disclosure and transition. The Organization's policy is to recognize interest and penalties on unrecognized tax benefits in income tax expense. No interest and penalties were recorded during the years ended 2019 and 2018. At June 30, 2019 and 2018, there are no significant income tax uncertainties.

As of June 30, 2019, all required tax returns have been filed.

Reclassifications:

Certain balances in the 2018 financial statements have been reclassified to conform to the 2019 financial statement presentation.

Subsequent Events:

The Organization has evaluated events subsequent to the statement of financial position date as of June 30, 2019 through January 20, 2020, the date that the financial statements were available to be issued.

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 3 - MORTGAGE NOTES RECEIVABLE:

Mortgages receivable consist of noninterest-bearing mortgage notes that are secured by properties sold through the home building program and generally mature in 6-30 years, through October 2041. Mortgages on houses sold during the year ended 2019, were discounted at Habitat for Humanity International, Inc.'s stipulated interest rate of 7.66%. No homes were sold during 2018.

Outstanding mortgage notes receivable are as follows:

	June 30,	
	2019	2018
Gross payments receivable	\$ 2,597,499	\$ 2,513,203
Imputed interest discount	(1,067,965)	(1,041,125)
Net receivable	<u>\$ 1,529,534</u>	<u>\$ 1,472,078</u>

Gross payments receivable over the next five years, and thereafter, are as follows:

<u>Year</u>	
2020	\$ 200,164
2021	195,602
2022	189,963
2023	183,698
2024	181,646
Thereafter	<u>1,646,426</u>
Gross payments receivable	2,597,499
Less: Imputed interest discount	<u>(1,067,965)</u>
Receivable, net	<u>\$ 1,529,534</u>

NOTE 4 - COST OF HOMES SOLD:

Property acquisition and construction costs incurred in connection with the Organization's home building program are capitalized as construction in progress until construction is completed and the property is sold. In the year the property is sold, the total cost is reflected on the statement of activities and changes in net assets as cost of homes sold. The number of properties completed each year can vary significantly from year to year, and this can produce variations within the Organization's annual change in net assets.

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 - CONSTRUCTION IN PROGRESS:

As of June 30, 2019 and 2018, the Organization has land costs of \$41,660 and \$288,747, respectively, and construction costs of \$62,401 and \$241,727 respectively. As of June 30, 2019, these costs related to the 47 Delmonico Avenue project and 48 Howard Avenue in Franklin, both to be completed in fiscal year 2020. As of June 30, 2018, these costs related to 189 and 191 Delmonico, which were both completed in 2019.

Generally, the properties under construction are sold below cost when completed. Management has not evaluated construction in progress for this probable write-down.

NOTE 6 - CONSTRUCTION EQUIPMENT:

Construction equipment consists of the following:

	June 30,	
	2019	2018
Equipment	\$ 83,731	\$ 50,500
Less: Accumulated depreciation	(29,573)	(14,391)
	<u>\$ 54,158</u>	<u>\$ 36,109</u>

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 7 - NOTES PAYABLE:

During 2018, the Organization entered into a note in the amount of \$504,900, issued by Habitat for Humanity International, Inc. with an interest rate of 5%. The loan is secured by the assignment of mortgages receivable with outstanding balances totaling \$1,529,534 and \$1,472,078 at June 30, 2019 and 2018, respectively. As of June 30, 2019 and 2018, note payable is as follows:

	June 30,	
	2019	2018
Note payable to Habitat for Humanity International, Inc. Quarterly payments of \$16,280 with interest at 5%. Note matures December 31, 2027.	\$ 445,112	\$ 484,966
Less: Current maturities	(39,923)	(41,384)
Long-term Portion	<u>\$ 405,189</u>	<u>\$ 443,582</u>

At June 30, 2019, notes payable mature as follows:

Year	Principal
2020	\$ 39,923
2021	45,708
2022	48,037
2023	50,484
2024	53,056
Thereafter	207,904
	<u>\$ 445,112</u>

RARITAN VALLEY HABITAT FOR HUMANITY, INC.
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NOTE 8 - HOME INVESTMENT PARTNERSHIP FUNDS:

On May 25, 2017, the Organization was awarded 2 subgrant agreements from Somerset County under its U.S. Department of Housing and Urban Development HOME Investment Partnerships Program for \$22,316 and \$255,436.

The 2017 subaward amounts are development loans that must be used for the sole purpose of low-to moderate income affordable housing units in accordance with 24 Code of Federal Regulations sections 92.252 through 92.254. After 20 years, the loans will be forgiven if the property is maintained in compliance with the subgrant agreement.

For the years ended June 30, 2019 and 2018, respectively, \$76,120 and \$146,159 has been expended under these subawards, which is reflected as government grant revenue in the accompanying statements of activities and changes in net assets, as well as being reflected on the schedule of expenditures of federal awards.

NOTE 9 - LEASES:

The Organization has a month-to-month lease agreement with an unrelated party for the rental of its office space. Rent expense under this lease amounted to \$11,325 and \$9,600 for the years ended June 30, 2019 and 2018, respectively.

In 2018, the Organization entered into a lease agreement with an unrelated party for the rental of ReStore space associated with the new ReStore operation. The lease expires in May 2023.

The Organization leases office equipment through 2020 for use in operations.

The Organization is obligated under these two leases, for future minimum lease payments as follows:

<u>Year Ending</u> <u>June 30,</u>	
2020	\$ 122,681
2021	132,000
2022	132,000
2023	132,000
Total	<u>\$ 518,681</u>

Rent expense under these leases amounted to \$76,225 and \$3,524 for the years ended June 30, 2019 and 2018, respectively.

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NOTE 10 - CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.:

Habitat for Humanity International, Inc. is a global partnership, and in recognition of that commitment, the Organization covenants with Habitat for Humanity International, Inc. to contribute at least 10% of its unrestricted cash contributions, including events profits, to this international affiliate.

In addition, the Organization is required to remit an additional amount towards the Stewardship and Organizational Sustainability Incentive ("SOSI"). The tithe for the years ended June 30, 2019 and 2018, was \$29,717 and \$20,001, respectively. The SOSI was \$15,000 for each of the years ended June 30, 2019 and 2018. The combined amounts for each fiscal year are included as contribution to Habitat for Humanity International, Inc. expense in the accompanying statements of functional expenses.

NOTE 11 - CONCENTRATIONS OF CREDIT RISK:

Financial instruments that expose the Organization to concentrations of credit and market risk consist primarily of mortgage notes receivable due from homeowners and inventory of residential buildings. Although the Organization does not currently foresee a credit risk associated with the amounts due, repayment of the amounts is dependent upon the financial stability of the homeowners.

In addition, the Organization maintains its cash in bank deposit accounts at high-quality financial institutions. At times, these balances may exceed federally insured limits.

NOTE 12 - COMMITMENTS AND CONTINGENCIES:

The Organization is involved in potential unasserted claims and legal actions arising in the ordinary course of business. In the opinion of management, the ultimate outcome of these matters will not have a material adverse effect on the Organization's financial position and changes in net assets.

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NOTE 13 - LINE OF CREDIT:

The Organization has a revolving line of credit with a bank. The available balance on this line is \$100,000 at June 30, 2019. The revolving line of credit renews annually. At June 30, 2019 and 2018, the Organization had no borrowings under the line. The interest rate was 2.75% and 6.0% at June 30, 2019 and 2018, respectively.

NOTE 14 - FUNCTIONAL EXPENSES:

The costs of providing the various programs and other activities are reflected on a functional basis on the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services. General and administrative expenses are those not directly identifiable with any specific function, but which provide for the overall support and direction of the Organization.

The financial statements contain certain categories of expense that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and wages, payroll taxes, and fringe benefits. These costs are allocated based upon actual time spent.

NOTE 15 - LIQUIDITY AND AVAILABILITY:

The following represents the Organization financial assets at June 30, 2019, reduced by amounts not available for general use within one year of the statement of financial position date because of contractual or donor-imposed restrictions. Amounts available include donor-restricted amounts that are available for general expenditure in the following year.

	2019
Cash and cash equivalents	\$ 823,648
Mortgage receivables, current	200,164
Grants receivable	10,975
Total financial assets	1,034,787
Less amounts not available to be used within one year:	
Net assets with donor restrictions	(221,110)
Financial assets available to meet general expenditures over the next 12 months	\$ 813,677

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Additionally, the Organization has a line of credit for \$100,000 fully available.