

Wichita Habitat for Humanity, Inc.

Independent Auditor's Report

and

Financial Report

December 31, 2019 and 2018



Wichita Habitat for Humanity, Inc.

Independent Auditor's Report

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Financial Report

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Independent Auditor's Report

To the Board of Directors
Wichita Habitat for Humanity, Inc.
Wichita, Kansas

We have audited the accompanying financial statements of Wichita Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2019 and 2018, and the related statements of 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 audits 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 entity'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 entity'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 Wichita Habitat for Humanity, Inc. as of December 31, 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.

Other Matters-Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of direct expense of Habitat's ReStore 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 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 statement as a whole.

Regier Can E Mowat, CPA

July 30, 2020
Wichita, Kansas

Wichita Habitat for Humanity, Inc.
Statements of Financial Position
For the Years Ended December 31, 2019 and 2018

	2019	2018
Assets		
Cash and cash equivalents	\$ 821,465	\$ 998,675
Certificates of deposit	617,183	579,574
Funds held for others	7,137	24,250
Accounts receivable	21,348	19,602
Inventory	123,770	100,787
Other	-	5,100
Contributions receivable	21,579	4,200
Other assets	51,945	28,314
Construction assets		
Construction supplies	30,341	29,338
Construction in progress	64,520	123,497
Land held for development	62,865	71,137
Mortgages receivable	4,337,131	3,945,828
Property and equipment - net of accumulated depreciation of \$161,453 and \$132,553 at December 31, 2019 and 2018, respectively	176,858	201,508
Total assets	\$ 6,336,142	\$ 6,131,810
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 9,702	\$ 46,283
Funds held for others	7,137	24,250
Accrued salaries and vacation	44,331	31,437
Payroll and sales taxes payable	3,842	3,699
Notes payable-related party	-	6,833
Notes payable-bank	56,534	68,162
Capital lease payable	11,130	17,202
Total liabilities	132,676	197,866
Net Assets		
Without donor restrictions	6,185,571	5,722,021
With donor restrictions	17,895	211,923
Total net assets	6,203,466	5,933,944
Total liabilities and net assets	\$ 6,336,142	\$ 6,131,810

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

Wichita Habitat for Humanity, Inc.
Statements of Activities
For the Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donors Restrictions	Total	Without Donor Restrictions	With Donors Restrictions	Total
Support and Revenue						
Contributions	\$ 127,435	\$ 827,983	\$ 955,418	\$ 131,649	\$ 765,471	\$ 897,120
Grants	137,250	-	137,250	118,404	16,000	134,404
In kind contributions-for operations	196,476	-	196,476	134,882	-	134,882
Total contributions	461,161	827,983	1,289,144	384,935	781,471	1,166,406
Sale of homes						
Net proceeds from sale of homes	1,062,300	-	1,062,300	746,000	-	746,000
Less discount on non-interest bearing mortgages receivable	(295,350)	-	(295,350)	(352,232)	-	(352,232)
Adjusted net proceeds from sale of homes	766,950	-	766,950	393,768	-	393,768
Habitat's ReStore activity						
Sale of merchandise						
Purchased	463,247	-	463,247	417,098	-	417,098
Donated	773,793	-	773,793	697,093	-	697,093
Cost of goods sold	(261,903)	-	(261,903)	(258,157)	-	(258,157)
Direct expense	(784,438)	-	(784,438)	(759,397)	-	(759,397)
Net profit from Habitat's ReStore	190,699	-	190,699	96,637	-	96,637
Other revenue						
Amortization of discount on non-interest bearing mortgages receivable	323,114	-	323,114	370,055	-	370,055
Gain on 2nd mortgage proceeds	-	-	-	53,346	-	53,346
Other gains on mortgage receivable retirement	-	-	-	27,235	-	27,235
Other interest income	10,099	-	10,099	3,562	-	3,562
Miscellaneous revenue	23,546	-	23,546	38,110	-	38,110
Gain/(Loss) on disposal of assets	8,124	-	8,124	(71,401)	-	(71,401)
Total other revenue	364,883	-	364,883	420,907	-	420,907
Total revenue	\$ 1,783,693	\$ 827,983	\$ 2,611,676	\$ 1,296,247	\$ 781,471	\$ 2,077,718

(Continued)

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

Wichita Habitat for Humanity, Inc.
Statements of Activities
For the Years Ended December 31, 2019 and 2018

	2019			2018		
	Without Donor Restrictions	With Donors Restrictions	Total	Without Donor Restrictions	With Donors Restrictions	Total
Net Assets Released from Restrictions						
Home construction	\$ 940,376	\$ (940,376)	\$ -	\$ 597,171	\$ (597,171)	\$ -
Lot purchase	74,018	(74,018)	-	-	-	-
Equipment	7,226	(7,226)	-	4,983	(4,983)	-
Conference	391	(391)	-	3,609	(3,609)	-
Total net assets released from restrictions	<u>1,022,011</u>	<u>(1,022,011)</u>	<u>-</u>	<u>605,763</u>	<u>(605,763)</u>	<u>-</u>
Expenses						
Program services						
Cost of homes sold	1,153,370	-	1,153,370	811,345	-	811,345
Other program expenses	699,302	-	699,302	689,044	-	689,044
Total program expenses	<u>1,852,672</u>	<u>-</u>	<u>1,852,672</u>	<u>1,500,389</u>	<u>-</u>	<u>1,500,389</u>
Supporting services						
General and administration	250,751	-	250,751	239,104	-	239,104
Fund-raising	238,731	-	238,731	213,937	-	213,937
Total support expenses	<u>489,482</u>	<u>-</u>	<u>489,482</u>	<u>453,041</u>	<u>-</u>	<u>453,041</u>
Total expenses	<u>2,342,154</u>	<u>-</u>	<u>2,342,154</u>	<u>1,953,430</u>	<u>-</u>	<u>1,953,430</u>
Change in Net Assets	463,550	(194,028)	269,522	(51,420)	175,708	124,288
Net Assets at Beginning of Year	<u>5,722,021</u>	<u>211,923</u>	<u>5,933,944</u>	<u>5,773,441</u>	<u>36,215</u>	<u>5,809,656</u>
Net Assets at End of Year	<u>\$ 6,185,571</u>	<u>\$ 17,895</u>	<u>\$ 6,203,466</u>	<u>\$ 5,722,021</u>	<u>\$ 211,923</u>	<u>\$ 5,933,944</u>

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

Wichita Habitat for Humanity, Inc.
Statements of Functional Expenses
For the Years Ended December 31, 2019 and 2018

	2019				2018			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
		General & Administrative	Fund- Raising			General & Administrative	Fund- Raising	
Construction costs	\$ 961,639	\$ -	\$ -	\$ 961,639	\$ 678,299	\$ -	\$ -	\$ 678,299
In kind-materials/ supplies	191,731	-	-	191,731	133,046	-	-	133,046
Cost of homes sold	1,153,370	-	-	1,153,370	811,345	-	-	811,345
Salaries	474,036	167,417	157,663	799,116	463,070	154,544	150,422	768,036
Employee benefits	30,516	12,240	16,438	59,194	29,516	12,212	15,500	57,228
Payroll taxes	34,741	12,505	10,788	58,034	33,394	11,318	10,362	55,074
Professional fees	759	17,654	35	18,448	4,736	15,837	35	20,608
Supplies	18,363	4,089	8,877	31,329	19,383	3,360	8,892	31,635
Telephone	6,605	1,290	1,378	9,273	6,237	849	1,231	8,317
Postage and shipping	1,315	233	8,228	9,776	1,835	64	8,730	10,629
Occupancy	19,231	6,584	5,875	31,690	19,202	5,262	5,580	30,044
Tools and equipment	9,824	-	25	9,849	7,573	52	-	7,625
Printing	2,330	77	2,673	5,080	1,124	54	2,985	4,163
Travel	7,304	559	307	8,170	10,204	488	130	10,822
Repairs	23,562	1,110	-	24,672	13,056	1,120	-	14,176
Advertising	11,218	-	9,556	20,774	2,802	-	50	2,852
Training	1,288	600	697	2,585	4,219	737	272	5,228
Food	5,492	1,406	7,443	14,341	5,062	1,130	145	6,337
Dues and subscriptions	2,382	15,000	1,200	18,582	5,745	15,250	1,246	22,241
Fees	600	4,276	-	4,876	-	9,458	-	9,458
Other	1,182	29	1,185	2,396	2,415	560	1,430	4,405
Volunteer recognition	694	-	607	1,301	446	-	380	826
Insurance	30,298	5,682	4,696	40,676	38,416	6,809	5,547	50,772
Interest	266	-	-	266	829	-	-	829
Vacant lot expense	631	-	-	631	1,675	-	-	1,675
Escrow losses/bad debts	-	-	1,060	1,060	-	-	1,000	1,000
Depreciation	16,665	-	-	16,665	18,105	-	-	18,105
Other expenses	699,302	250,751	238,731	1,188,784	689,044	239,104	213,937	1,142,085
Total expenses	\$ 1,852,672	\$ 250,751	\$ 238,731	\$ 2,342,154	\$ 1,500,389	\$ 239,104	\$ 213,937	\$ 1,953,430

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

Wichita Habitat for Humanity, Inc.
Statements of Cash Flows
For the Years Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 269,522	\$ 124,288
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
(Gain)/loss on disposal of assets	(8,124)	71,401
Depreciation	22,829	27,084
Amortization of capital lease	6,071	6,071
Change in operating assets and liabilities:		
Certificates of deposit	(37,609)	(18,070)
Accounts receivable	(1,746)	3,528
Inventory	(22,983)	(27,649)
Other	5,100	(5,100)
Contributions receivable	(17,379)	107,989
Other assets	(23,631)	17,129
Construction assets:		
Construction supplies	(1,003)	(9,857)
Construction in progress	58,977	124,513
Land held for development	6,896	(16,077)
Mortgages receivable	(391,303)	(59,066)
Accounts payable	(36,581)	(9,352)
Accrued salaries & vacation	12,894	9,299
Payroll and sales taxes payable	143	669
Net cash provided by operating activities	<u>(157,927)</u>	<u>346,800</u>
Cash Flows from Investing Activities		
Proceeds from sale of lot	9,500	-
Purchase of property & equipment	(4,250)	(9,213)
Net cash used by investing activities	<u>5,250</u>	<u>(9,213)</u>
Cash Flows from Financing Activities		
Repayment of notes payable-related party	(6,833)	(7,715)
Repayment of notes payable-bank	(11,628)	(11,056)
Payments on capital lease obligations	(6,072)	(6,071)
Net cash used by financing activities	<u>(24,533)</u>	<u>(24,842)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	(177,210)	312,745
Cash and Cash Equivalents-Beginning of Year	998,675	685,930
Cash and Cash Equivalents-End of Year	<u>\$ 821,465</u>	<u>\$ 998,675</u>
Supplemental Information:		
Proceeds from sales of real estate financed through non-interest bearing mortgages receivable, net of discount	<u>\$ 602,833</u>	<u>\$ 330,568</u>
Interest paid	<u>\$ 266</u>	<u>\$ 806</u>

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

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies

Nature of operations

Wichita Habitat for Humanity, Inc. is a nonprofit corporation based in Wichita, Kansas organized for the purpose of constructing modest single family housing for low-income families. The Organization is an affiliate of Habitat for Humanity International, a Georgia nonprofit corporation. The Organization receives its funding primarily from individual and corporate donations. In addition to cash and in-kind contributions of materials and supplies, the Organization relies on volunteers for significant aspects of the housing construction. Additional construction costs are incurred for items which are not donated. Such costs may include real estate, direct materials, subcontractor costs and indirect costs related to construction such as supplies, insurance and building permits.

Homes are sold to eligible families who have been selected by the Organization. In addition to satisfying eligibility criteria, potential homeowners are required to invest 400 hours if dual head of household or 250 hours if single of donated service for the home's construction. However, for both types of homeowners 100 hours can be donated. The homes are sold to the selected families at the average estimated cost paid to construct the home. Additionally, sales are financed by the Organization with zero percent interest mortgages to the families.

Habitat's ReStore

Habitat's ReStore is a store in which building materials, home appliances and supplies are sold to the public. Portions of the merchandise are donated to the Organization, or are surplus materials from construction activities. Other amounts of merchandise that are sold are purchased through traditional methods.

Use of estimates

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America 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.

Cash and cash equivalents

Cash and cash equivalents include all monies from checking and certificates of deposit which have original maturities of 90 days or less.

Certificates of deposit

Certificates of deposit are carried at cost, which is estimated to approximate fair value. All certificates of deposit which have not been included as a cash equivalent have original maturities greater than 90 days, but less than one year.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Inventory

Inventory is stated at the lower of cost or market, computed on the first-in, first-out method. The original carrying value for items purchased for operations, or sale at Habitat's ReStore, is the actual cost to acquire the item. The carrying value of donated items for use in operations is the fair value of the item at the date of the contribution. Donated items for sale at Habitat's ReStore are not recognized until sold.

Construction in progress and land held for development

Construction in progress includes direct costs associated with the construction of a home. Direct costs include materials, supplies, sub-contractor costs and other construction related expenses. Land held for development represents the carrying value of lots owned by the Organization which may be the site of future home construction. The carrying value of construction in progress and land held for development is cost, or if donated, the fair value at the time of the donation. Upon the sale of the home to a homeowner, the construction in progress and land held for development are recognized as cost of homes sold.

Mortgages receivable

Mortgages receivable consist of non-interest bearing notes, which have been collateralized by single family residential property located in the Wichita, Kansas area. The mortgages receivable have been discounted to an estimated present value using discount rates ranging from 5% to 8.14%, over the remaining life of the mortgage. Discount rates are established at the origination of the mortgage and remain fixed over the term of the mortgage.

Property assets

Property and equipment are carried at cost or estimated fair value at date of donation. The Organization typically capitalizes items costing or valued at \$3,000 or more. Depreciation has been computed using the straight-line method over the following estimated useful lives:

Furniture and office equipment	3 to 15 years
Transportation equipment	3 to 5 years
Leasehold improvements	15 years
Warehouse	27.5 years

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Classification of Net Assets

For financial reporting purposes, the Organization follows the reporting requirements of GAAP, which requires that resources be classified for reporting purposes based on the existence or absence of donor-imposed restrictions. This is accomplished by classification of fund balances into two classes of net assets: without donor restrictions and with donor restrictions. Descriptions of the two net asset categories and the types of transactions affecting each category follow:

- Without Donor Restrictions - Net assets that are not subject to donor-imposed restrictions. Items that affect this net asset category principally consist of fees for service and related expenses associated with core activities of the Organization.
- With Donor Restrictions - Net assets are subject to donor-imposed restrictions that will be met either by actions of the Organization or the passage of time. Items that affect this net asset category are gifts for which donor-imposed restrictions have not been met in the year of receipt. Satisfaction or expirations of restrictions on net assets with donor restrictions are reported as net assets released from restrictions. The Organization has no donor-imposed restrictions which are perpetual in nature.

Change in Accounting Principles

In June 2018, FASB issued ASU 2018-08, *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. This standard assists entities in evaluating whether transactions should be accounted for as contributions or exchange transactions and determining whether a contribution is conditional. We have implemented the provisions of ASU 2018-08 applicable to both contributions received and to contributions made in the accompanying consolidated financial statements under a modified prospective basis. Accordingly, there is no effect on net assets in connection with our implementation of ASU 2018-08.

Contribution recognition

Contributions, including any unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, when conditions on which they depend are substantially met. The Organization reports gifts of cash and other assets as 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, net assets with donor restrictions are reclassified as net assets without donor restrictions and reported in the statement of activities as satisfaction of donor restrictions.

Contributions with donor-imposed restrictions that are met in the same accounting period are recorded as net assets with donor restrictions at the time of receipt. The Organization reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Contribution recognition (Continued)

Volunteers have donated significant amounts of their time to the Organization's program services. The value of those donated services are not recorded in the accompanying financial statements. During the year ended December 31, 2019 there were approximately 29,950 hours of volunteer time donated towards the Organization's construction activities.

Income taxes

The Organization is organized as Kansas nonprofit corporation and has been recognized by the Internal Revenue Service (IRS) as exempt from federal income taxes under Section 501(a) of the Internal Revenue Code as an organization described in Section 501(c)(3). The Organization is qualified to receive deductible charitable contributions under Section 170(b)(1)(A)(vi) and (viii), and has been determined not to be a private foundation under Sections 509(a)(1) and (3). The Organization is annually required to file a Return of Organization Exempt from Income Tax (Form 990) with the IRS. In addition, the Organization is subject to income tax on net income that is derived from business activities that are unrelated to their exempt purposes. The Organization has filed an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS.

The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements. The Organization would recognize future accrued interest and penalties related to unrecognized tax benefits and liabilities in income tax expense if such interest and penalties are incurred.

Advertising

Advertising costs are expensed as incurred. Advertising charged to expense on the Statement of Functional Expenses was \$20,774 and \$2,852 for the years ended December 31, 2019 and 2018, respectively. Additional advertising included in direct expense of Habitat's ReStore was \$69,883 and \$53,644 for the years ended December 31, 2019 and 2018, respectively.

Functional allocation of expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs, general and administrative, and fund raising activities that were benefited. Program expenses not only include the construction of homes, but also the servicing of non-interest bearing mortgage loans and home buyer education. As noted above, the Organization's program efforts include substantial volunteer effort which is not recognized in the financial statements, therefore, program expenses do not reflect these donated services.

General and administrative expenses include those costs that are not directly identifiable with any specific program, but which provide for the overall support and direction of the Organization.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

1. Summary of Significant Accounting Policies (Continued)

Functional allocation of expenses (Continued)

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years. The Organization generally does not conduct its fund raising activities in conjunction with its other activities.

Recent Accounting Pronouncements

- *Revenue Recognition*

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) No. 2014-09, Revenue from Contracts with Customers (Topic 606), that will supersede the current revenue recognition requirements. The ASU is based on the principle that revenue is recognized to depict the transfer of 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 and services. The ASU also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for the Organization's year ending December 31, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. The Organization has not yet determined which application method it will use or the potential effects on the new standard on the financial statements, if any.

- *Leases*

In February 2016, the Financial Accounting Standards Board issued ASU No. 2016-02, Leases (Topic 842), that will supersede the current lease requirements. The ASU requires lessees to recognize a right-of-use asset and related lease liability for all leases, with a limited exception for short-term leases. Leases will be classified as either financing or operating, with the classification affecting the pattern of expense recognition in the statement of operations. Currently, leases are classified as either capital or operating, with only capital lease obligations recognized on the statement of financial position.

Lessor accounting under the new standard will remain similar to lessor accounting under current GAAP. The reporting of lease-related expenses in the statements of activities and cash flows will be generally consistent with the current guidance. The new lease guidance will be effective for the Organization's year ending December 31, 2022 and will be applied using a modified retrospective transition method to the beginning of the earliest period presented. The effect of applying the new lease guidance on the financial statements has not yet been determined.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

2. Contributions receivable

Contributions receivable were \$21,579 and \$4,200 as of December 31, 2019 and 2018, respectively. The contributions receivable have been discounted to an estimated present value using a 7.66% and 7.57% rate, respectively, over the remaining life of the receivable.

Contributions receivable are summarized as follows at December 31:

	<u>2019</u>	<u>2018</u>
Less than 1 year	\$ 15,300	\$ 4,200
1 to 5 years	6,800	-
	<u>22,100</u>	<u>4,200</u>
Less discount	(521)	-
Net contributions receivable	<u>\$ 21,579</u>	<u>\$ 4,200</u>

3. Mortgages receivable

Mortgages receivable consist of non-interest bearing notes, which have been collateralized by single family residential property located in the Wichita, Kansas area. The mortgages receivable have been discounted to an estimated present value using discount rates ranging from 5% to 8.14% over the remaining life of the mortgage. During the year 2018, the Organization transitioned to having their mortgages receivable serviced by a local bank. The notes require monthly payments, including amounts for insurance and taxes. Amounts received for insurance and taxes are held in escrow by the local bank until the due date for the payment. As a result of the loan to value ratio for mortgaged collateral, a provision for loan losses is not considered necessary at December 31, 2019 and 2018. The ultimate collectability of the mortgage receivables and the value of mortgaged collateral are susceptible to changes in the local economy.

Mortgages receivable consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Mortgages receivable	\$ 7,147,373	\$ 6,783,833
Less discount	(2,810,242)	(2,838,005)
Net mortgages receivable	<u>\$ 4,337,131</u>	<u>\$ 3,945,828</u>

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

4. Property and equipment

Property and equipment consisted of the following at December 31:

	<u>2019</u>	<u>2018</u>
Furniture and equipment	\$ 66,125	\$ 66,125
Transportation equipment	90,657	86,407
Leasehold improvements	31,545	31,545
Warehouse	149,984	149,984
	<u>338,311</u>	<u>334,061</u>
Less accumulated depreciation	<u>(161,453)</u>	<u>(132,553)</u>
	<u>\$ 176,858</u>	<u>\$ 201,508</u>

Depreciation charged to expense on the Statement of Functional Expenses was \$16,665 and \$18,105 for the years ended December 31, 2019 and 2018, respectively. Additional depreciation included in direct expense of Habitat's ReStore was \$6,164 and \$8,979 for the years ended December 31, 2019 and 2018, respectively.

5. Grant revenue and note payable – related party

Self-Help Homeownership Opportunity Program (SHOP)

During the years ended December 31, 2019 and 2018, no grant revenue was recognized from Habitat for Humanity International Self-Help Homeownership Opportunity Program (SHOP) grants. Related to these SHOP grant awards, there was no additional funding received during the years ended December 31, 2019 and 2018. The notes are non-interest bearing and payable in monthly installments over forty-eight months. The notes payable have been discounted to an estimated present value using discount rates ranging from 7.39% to 8.14% over the terms of the notes payable. The outstanding balance of these notes payable at December 31, 2019 and 2018 was \$0 and \$6,833, respectively.

Notes payable – related party consist of the following at December 31:

	<u>2019</u>	<u>2018</u>
Notes payable - related party	\$ -	\$ 7,099
Less discount	-	(266)
Net notes payable - related party	<u>\$ -</u>	<u>\$ 6,833</u>

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

6. Note payable - bank

The notes payable to a bank consist of the following at December 31, 2019 and 2018:

	2019	2018
Note payable to a bank payable in monthly installments of \$1,235 beginning April 13, 2014 and maturing March 13, 2024, bearing an initial interest rate of 5% through the initial seven years, adjusting annually thereafter based upon a U.S. Treasury index, plus 3.5%, secured by warehouse	<u>\$ 56,534</u>	<u>\$ 68,162</u>

Future principal payments on the note payable to a bank as of December 31, 2019 are as follows:

2020	\$ 12,291
2021	12,920
2022	13,581
2023	14,276
2024	3,466
	<u>\$ 56,534</u>

7. Capital lease payable

In October 2016, Wichita Habitat for Humanity, Inc. leased a truck for Habitat's ReStore under a capital lease for a term of 60 months, expiring October 2, 2021.

Future payments related to the capital lease due during the years ended December 31 are as follows:

	2019
2020	\$ 7,920
2021	6,446
Total	14,366
Less: Imputed interest	(3,236)
Total capital leases	<u>\$ 11,130</u>

At December 31, 2019 and 2018, the carrying value of the truck being leased, net of accumulated depreciation, was \$11,131 and \$17,202, respectively. Depreciation expense included within Auto expense in the Supplemental Information-Direct Expense Related to Habitat's ReStore related to the truck was \$6,071 for the years ended December 31, 2019 and 2018.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

8. Net assets without donor restrictions

Net assets without donor restrictions are for the following purposes as of December 31:

	<u>2019</u>	<u>2018</u>
Undesignated	\$ 5,935,571	\$ 5,472,021
Board designated - operating reserve	250,000	250,000
	<u>\$ 6,185,571</u>	<u>\$ 5,722,021</u>

9. Net assets with donor restrictions

Net assets with donor restrictions are for the following purposes as of December 31:

	<u>2019</u>	<u>2018</u>
Home construction	\$ 1,913	\$ 114,306
Lot purchase	15,982	90,000
Equipment	-	7,226
Conferences	-	391
	<u>\$ 17,895</u>	<u>\$ 211,923</u>

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

10. Financial assets and liquidity resources

The following schedule reflects the Organization's financial assets available for general expenditure as of December 31, 2019 and 2018, reduced by amounts that are not available for general use due to donor-imposed and/or board designated restrictions within one year of the statement of financial position date:

	2019	2018
Financial assets:		
Cash and cash equivalents	\$ 821,465	\$ 998,675
Certificates of deposit	617,183	579,574
Accounts receivable	21,348	19,602
Other	-	5,100
Contributions receivable	21,579	4,200
	1,481,575	1,607,151
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with purpose restrictions:		
Home construction	1,913	114,306
Lot purchase	15,982	90,000
Equipment	-	7,226
Conferences	-	391
Board designated:		
Operating reserve	250,000	250,000
	267,895	461,923
Total financial assets available to meet cash need for general purpose expenditures within one year	\$ 1,213,680	\$ 1,145,228

11. Other related party

Ten percent of Habitat's ReStore's net income is contributed to Habitat for Humanity International to support housing construction in third world countries. Contributions to Habitat for Humanity International were as follows for the years ended December 31:

	2019	2018
Statement of activities - Direct expense of Habitat's ReStore	\$ 21,270	\$ 10,878

Wichita Habitat for Humanity had accounts payable of \$499 and \$618 to Habitat for Humanity International as of December 31, 2019 and 2018, respectively.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

12. Leases

Wichita Habitat for Humanity, Inc. leases its office space under an operating lease agreement. The operating lease agreement originally required monthly payments of \$2,285 and was to expire on June 30, 2021. The lease was then renegotiated to include additional space. The revised lease was effective June 1, 2019, increasing rent to \$2,350 through June 30, 2021. Lease expense related to office space for the years ended December 31, 2019 and 2018 was \$31,550 and \$29,871, respectively. Subsequent to year end, the lease was again renegotiated to include further additional space. The revised lease was effective January 1, 2020, increasing rent to \$2,785 through June 30, 2021.

Wichita Habitat for Humanity, Inc. also leased retail space for Habitat's ReStore under the terms of an operating lease. The lease has an initial term of five years, expiring on May 31, 2023. The lease requires monthly payments of \$8,395 for the first three years and increases to \$9,042 for the fourth and fifth years of the initial term. The lease has options to extend the lease for two additional periods of five years each. Lease expense related to retail space for the years ended December 31, 2019 and 2018 was \$100,750 and \$99,034, respectively.

Future minimum lease payments required under these leases at December 31, 2019 are as follows:

	Administrative Office	Habitat's ReStore	Total
2020	\$ 33,420	\$ 100,750	\$ 134,170
2021	16,710	105,271	121,981
2022	-	108,500	108,500
2023	-	45,208	45,208
	<u>\$ 50,130</u>	<u>\$ 359,729</u>	<u>\$ 409,859</u>

13. Pension plan

During 2009, Wichita Habitat for Humanity, Inc. implemented a 403(b) thrift plan for its employees. The employees become eligible to make contributions to the plan beginning on the first day of employment when working more than 20 hours per week. Employees are eligible for employer contributions when they have attained 21 years of age, have been employed for more than six months and when working more than 20 hours per week. The participants can defer up to \$19,000 and \$18,500 of their compensation for 2019 and 2018, respectively. The Organization matches 50% of contributions made up to 7% of their compensation. Total expense for the plan was \$23,670 and \$24,014 for the years ended December 31, 2019 and 2018, respectively.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2019 and 2018

14. Cash balance in excess of FDIC limit

At various times during the fiscal year, the Organization's cash in bank balances exceeded the federally insured limits. At December 31, 2019, the Organization's uninsured cash balances totaled approximately \$553,123. Management does not believe it is exposed to significant credit risk.

15. Commitments

The Organization has commitments to sell homes currently under construction at estimated cost and to finance the sale with non-interest bearing mortgage receivables to potential homeowners, based upon the satisfaction of certain requirements by the potential homeowner. Substantially all properties included in construction in progress are identified for such sale.

16. Subsequent events

Coronavirus (COVID-19)

Subsequent to year-end, the Covid-19 outbreak in the US resulted in closing the program office to the public and most of those employees working from home; closing the construction sites to community volunteers and leaving two construction staff to complete two houses under construction, and closing the ReStore to the public for six consecutive weeks with lost sales and gift in kind donations through that time. Funding received through the CARES Act allowed all staff to be retained. Corporate volunteer team building days, with their related sponsor funding, are not expected through the end of 2020 due to economic and health impacts in Sedgwick County. The Organization will be unable to make up construction production time. Management recommended and the board approved a mission delivery reduction from 15 to 8 families served through homeownership for FY 2020. A signature fund raising event cancelled prior to the pandemic may be re-instated as a virtual event in early 2021. The Organization anticipates a continued negative impact on fund raising as a result of individual and corporate reluctance to make gifting decisions during this time of uncertainty. Many current mortgage holders fill essential job functions in the community and are therefore at a greater risk of exposure to illness. The potential for loss mortgage payment income, though not yet experienced, could further impact operating income as long as the virus continues without proven preventative measures.

Sale of Mortgages

Subsequent to December 31, 2019, the Organization sold selected mortgages receivable to two local banks. The gross amount of gross receivables sold was in excess of \$1,000,000 at a sales price of 85% of the gross receivable. The loans were sold with recourse and the Organization is required to repurchase the loans in the event the loan becomes nonperforming. The Organization will evaluate the benefit of additional sales of mortgages receivable.

Management review

Subsequent events were evaluated through July 30, 2020, which is the date the financial statements were available to be issued.

Supplemental Information

Wichita Habitat for Humanity, Inc.
Supplemental Information-Direct Expense of Habitat's ReStore
For the Year Ended December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Salaries	\$ 331,128	\$ 316,452
Employee benefits	23,778	25,465
Payroll taxes	27,524	26,268
Professional fees	522	-
Supplies	15,421	14,366
Telephone	4,767	5,125
Postage and shipping	-	70
Occupancy	208,124	205,436
Printing	564	-
Travel	-	148
Repairs	1,778	22,671
Advertising	69,883	53,644
Auto	28,741	16,563
Food	-	277
Tithe	21,270	10,878
Dues and subscriptions	1,024	5,351
Fees	21,830	20,296
Other	1,746	1,564
Volunteer Recognition	78	-
Insurance	20,096	25,844
Depreciation	6,164	8,979
Total direct expenses of Habitat's ReStore	<u>\$ 784,438</u>	<u>\$ 759,397</u>

EL DORADO	PO BOX 847	EL DORADO, KS 67042-0847	316-321-1150
McALESTER	101 S. 2ND. STE. B	McALESTER, OK 74501-5345	918-426-1234
TUCSON	4801 E. BROADWAY BLVD., STE. 501	TUCSON, AZ 85711-3648	520-624-8229
TULSA	4200 E. SKELLY DR., STE. 560	TULSA, OK 74135-3209	918-494-8700
WAGONER	611-D W. CHEROKEE ST.	WAGONER, OK 74467-4618	918-485-5531
WICHITA	300 W. DOUGLAS AVE., STE. 900	WICHITA, KS 67202-2914	316-264-2335