

Wichita Habitat for Humanity, Inc.

Independent Auditor's Report

and

Financial Report

December 31, 2020 and 2019



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, 2020 and 2019, 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, 2020 and 2019, 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 Mowbray, CPA

July 16, 2021
Wichita, Kansas

Wichita Habitat for Humanity, Inc.
Statements of Financial Position
December 31, 2020 and 2019

	2020	2019
Assets		
Cash and cash equivalents	\$ 2,283,339	\$ 821,465
Certificates of deposit	273,393	617,183
Funds held for others	982	7,137
Accounts receivable	107,742	21,348
Inventory	120,606	123,770
Contributions receivable	46,795	21,579
Other assets	33,189	51,945
Construction assets		
Construction supplies	50,025	30,341
Construction in progress	203,835	64,520
Land held for development	10,606	62,865
Mortgages receivable	3,837,499	4,337,131
Property and equipment - net of accumulated depreciation of \$190,338 and \$161,453 at December 31, 2020 and 2019, respectively	188,550	176,858
Total assets	\$ 7,156,561	\$ 6,336,142
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 77,703	\$ 9,702
Funds held for others	982	7,137
Accrued salaries and vacation	56,475	44,331
Payroll and sales taxes payable	4,368	3,842
Notes payable-bank	44,309	56,534
Capital lease payable	5,059	11,130
Total liabilities	188,896	132,676
Net Assets		
Without donor restrictions	6,925,562	6,185,571
With donor restrictions	42,103	17,895
Total net assets	6,967,665	6,203,466
Total liabilities and net assets	\$ 7,156,561	\$ 6,336,142

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, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donors Restrictions	Total	Without Donor Restrictions	With Donors Restrictions	Total
Support and Revenue						
Contributions	\$ 279,194	\$ 551,478	\$ 830,672	\$ 127,435	\$ 827,983	\$ 955,418
Grants	226,320	-	226,320	137,250	-	137,250
Paycheck protection program	246,700	-	246,700	-	-	-
In kind contributions-for operations	195,234	-	195,234	196,476	-	196,476
Total contributions	<u>947,448</u>	<u>551,478</u>	<u>1,498,926</u>	<u>461,161</u>	<u>827,983</u>	<u>1,289,144</u>
Sale of homes						
Net proceeds from sale of homes	704,050	-	704,050	1,062,300	-	1,062,300
Less discount on non-interest bearing mortgages receivable	(106,449)	-	(106,449)	(295,350)	-	(295,350)
Adjusted net proceeds from sale of homes	<u>597,601</u>	<u>-</u>	<u>597,601</u>	<u>766,950</u>	<u>-</u>	<u>766,950</u>
Habitat's ReStore activity						
Sale of merchandise						
Purchased	476,988	-	476,988	463,247	-	463,247
Donated	799,386	-	799,386	773,793	-	773,793
Cost of goods sold	(271,953)	-	(271,953)	(261,903)	-	(261,903)
Direct expense	(786,852)	-	(786,852)	(763,168)	-	(763,168)
Net profit from Habitat's ReStore	<u>217,569</u>	<u>-</u>	<u>217,569</u>	<u>211,969</u>	<u>-</u>	<u>211,969</u>
Other revenue						
Amortization of discount on non-interest bearing mortgages receivable	311,509	-	311,509	323,114	-	323,114
Gain on 2nd mortgage proceeds	19,124	-	19,124	-	-	-
Other interest income	18,811	-	18,811	10,099	-	10,099
Miscellaneous revenue	17,250	-	17,250	23,546	-	23,546
Gain on disposal of assets	-	-	-	8,124	-	8,124
Gain on sale of mortgage receivables	239,473	-	239,473	-	-	-
Total other revenue	<u>606,167</u>	<u>-</u>	<u>606,167</u>	<u>364,883</u>	<u>-</u>	<u>364,883</u>
Total revenue	<u>\$ 2,368,785</u>	<u>\$ 551,478</u>	<u>\$ 2,920,263</u>	<u>\$ 1,804,963</u>	<u>\$ 827,983</u>	<u>\$ 2,632,946</u>

(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, 2020 and 2019

	2020			2019		
	Without Donor Restrictions	With Donors Restrictions	Total	Without Donor Restrictions	With Donors Restrictions	Total
Net Assets Released from Restrictions						
Home construction	\$ 511,178	\$ (511,178)	\$ -	\$ 940,376	\$ (940,376)	\$ -
Lot purchase	15,982	(15,982)	-	74,018	(74,018)	-
Equipment	-	-	-	7,226	(7,226)	-
Christmas party	110	(110)	-	-	-	-
Conference	-	-	-	391	(391)	-
Total net assets released from restrictions	<u>527,270</u>	<u>(527,270)</u>	<u>-</u>	<u>1,022,011</u>	<u>(1,022,011)</u>	<u>-</u>
Expenses						
Program services						
Cost of homes sold	849,666	-	849,666	1,153,370	-	1,153,370
Other program expenses	804,679	-	804,679	720,572	-	720,572
Total program expenses	<u>1,654,345</u>	<u>-</u>	<u>1,654,345</u>	<u>1,873,942</u>	<u>-</u>	<u>1,873,942</u>
Supporting services						
General and administration	229,386	-	229,386	250,751	-	250,751
Fund-raising	272,333	-	272,333	238,731	-	238,731
Total support expenses	<u>501,719</u>	<u>-</u>	<u>501,719</u>	<u>489,482</u>	<u>-</u>	<u>489,482</u>
Total expenses	<u>2,156,064</u>	<u>-</u>	<u>2,156,064</u>	<u>2,363,424</u>	<u>-</u>	<u>2,363,424</u>
Change in Net Assets	739,991	24,208	764,199	463,550	(194,028)	269,522
Net Assets at Beginning of Year	6,185,571	17,895	6,203,466	5,722,021	211,923	5,933,944
Net Assets at End of Year	<u>\$ 6,925,562</u>	<u>\$ 42,103</u>	<u>\$ 6,967,665</u>	<u>\$ 6,185,571</u>	<u>\$ 17,895</u>	<u>\$ 6,203,466</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, 2020 and 2019

	2020				2019			
	Program Services	Supporting Services		Total	Program Services	Supporting Services		Total
		General & Administrative	Fund- Raising			General & Administrative	Fund- Raising	
Construction costs	\$ 654,432	\$ -	\$ -	\$ 654,432	\$ 961,639	\$ -	\$ -	\$ 961,639
In kind-materials/ supplies	195,234	-	-	195,234	191,731	-	-	191,731
Cost of homes sold	849,666	-	-	849,666	1,153,370	-	-	1,153,370
Salaries	543,816	152,704	196,837	893,357	474,036	167,417	157,663	799,116
Employee benefits	30,901	13,344	18,988	63,233	30,516	12,240	16,438	59,194
Payroll taxes	40,981	10,999	13,503	65,483	34,741	12,505	10,788	58,034
Professional fees	2,744	13,995	35	16,774	759	17,654	35	18,448
Supplies	37,046	4,957	10,142	52,145	18,363	4,089	8,877	31,329
Telephone	8,410	1,097	1,731	11,238	6,605	1,290	1,378	9,273
Postage and shipping	939	330	9,093	10,362	1,315	233	8,228	9,776
Occupancy	18,112	5,788	7,035	30,935	19,231	6,584	5,875	31,690
Tools and equipment	3,458	397	55	3,910	9,824	-	25	9,849
Printing	503	-	-	503	2,330	77	2,673	5,080
Travel	4,729	166	-	4,895	7,304	559	307	8,170
Repairs	12,990	-	-	12,990	23,562	1,110	-	24,672
Advertising	13,342	-	3,205	16,547	11,218	-	9,556	20,774
Training	2,010	17	2,151	4,178	1,288	600	697	2,585
Food	1,131	124	179	1,434	5,492	1,406	7,443	14,341
Tithe	21,757	-	-	21,757	21,270	-	-	21,270
Dues and subscriptions	1,449	15,040	959	17,448	2,382	15,000	1,200	18,582
Fees	-	4,670	-	4,670	600	4,276	-	4,876
Other	1,250	62	1,482	2,794	1,182	29	1,185	2,396
Volunteer recognition	3,469	-	38	3,507	694	-	607	1,301
Insurance	34,856	5,696	5,950	46,502	30,298	5,682	4,696	40,676
Interest	-	-	-	-	266	-	-	266
Vacant lot expense	3,099	-	-	3,099	631	-	-	631
Escrow losses/bad debts	-	-	950	950	-	-	1,060	1,060
Depreciation	17,687	-	-	17,687	16,665	-	-	16,665
Other expenses	804,679	229,386	272,333	1,306,398	720,572	250,751	238,731	1,210,054
Total expenses	\$ 1,654,345	\$ 229,386	\$ 272,333	\$ 2,156,064	\$ 1,873,942	\$ 250,751	\$ 238,731	\$ 2,363,424

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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 764,199	\$ 269,522
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Gain on disposal of assets	-	(8,124)
Gain on sale of mortgage receivables	(239,473)	-
Depreciation	22,814	22,829
Amortization of capital lease	6,071	6,071
Change in operating assets and liabilities:		
Certificates of deposit	343,790	(37,609)
Accounts receivable	(86,394)	(1,746)
Inventory	3,164	(22,983)
Other	-	5,100
Contributions receivable	(25,216)	(17,379)
Other assets	18,756	(23,631)
Construction assets:		
Construction supplies	(19,684)	(1,003)
Construction in progress	(139,315)	58,977
Land held for development	52,259	6,896
Mortgages receivable	(184,345)	(391,303)
Accounts payable	68,001	(36,581)
Accrued salaries & vacation	12,144	12,894
Payroll and sales taxes payable	526	143
Net cash provided by operating activities	<u>597,297</u>	<u>(157,927)</u>
Cash Flows from Investing Activities		
Proceeds from mortgage receivable sale	923,450	-
Proceeds from sale of lot	-	9,500
Purchase of property & equipment	(40,577)	(4,250)
Net cash used by investing activities	<u>882,873</u>	<u>5,250</u>
Cash Flows from Financing Activities		
Repayment of notes payable-related party	-	(6,833)
Repayment of notes payable-bank	(12,225)	(11,628)
Payments on capital lease obligations	(6,071)	(6,072)
Net cash used by financing activities	<u>(18,296)</u>	<u>(24,533)</u>
Net Increase (Decrease) in Cash and Cash Equivalents	1,461,874	(177,210)
Cash and Cash Equivalents-Beginning of Year	<u>821,465</u>	<u>998,675</u>
Cash and Cash Equivalents-End of Year	<u>\$ 2,283,339</u>	<u>\$ 821,465</u>
Supplemental Information:		
Proceeds from sales of real estate financed through non-interest bearing mortgages receivable, net of discount	<u>\$ 466,891</u>	<u>\$ 602,833</u>
Interest paid	<u>\$ -</u>	<u>\$ 266</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, 2020 and 2019

1. Summary of Significant Accounting Policies

Nature of operations

Wichita Habitat for Humanity, Inc. (the “Organization”) 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, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

Inventory

Inventory is stated at the lower of cost or net realizable value, 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.

In 2020, the Organization entered into an agreement whereby it sold packages of mortgage loans to local financial institutions. A gain was recognized based upon the difference of the proceeds received and the net discounted carrying value of the mortgage loans sold.

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, 2020 and 2019

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

During 2020, the Organization adopted ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) using the full retrospective method. This ASU superseded the previous 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 adoption of this ASU did not have a significant impact on the Organization's financial statements. No changes were required to previously reported assets or revenues as a result of the adoption. Based on the Organization's evaluation process and review of its revenue sources, the timing and amount of revenue recognized previously is consistent with how revenue is recognized under the new standard.

Revenue and Revenue Recognition

Contributions, including any unconditional promises to give, are recognized as revenues in the period received. 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.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

Revenue and revenue recognition (Continued)

Revenue from certain grants and contracts from foundations and governmental entities contain stipulations within the agreements that contain right of return of funds and barriers that make these contributions conditional. These funds are recognized as revenue as eligible costs are incurred and barriers have been met. As of December 31, 2020, such conditional grant income approximating \$300,000 had been awarded but has not been recognized in the accompanying statement of activities because the conditions on which they depend have not yet been met. The conditions of the \$300,000 depends on repairing 23 housing units before October 17, 2023 in which the homeowner meets certain area median income levels. As of December 31, 2019, there were no such conditional contributions.

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.

Donated assets are reflected as in-kind contributions at their estimated fair value. Donated assets include donations used for the construction of homes and operations of the Organization. Due to the uncertainty of the value of donations made to ReStore, such donations are not recognized as revenue until the donated items are sold.

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, unless the donated services create or enhance non-financial assets and required specialized skills, if the services are provided by individual possessing those skills and if the services would typically need to be purchased if not provided by donation. During the year ended December 31, 2020 there were approximately 13,286 hours of volunteer time donated towards the Organization's construction activities that have not been reflected in the accompanying financial statements.

Other revenue items, including home sales and ReStore sales, are considered exchange transactions with revenue recognized as the respective event or exchange occurs within the year. Revenue on the sale of the homes is recognized at the estimated net present value of the proceeds to be received.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

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 \$16,547 and \$20,774 for the years ended December 31, 2020 and 2019, respectively. Additional advertising included in direct expense of Habitat's ReStore was \$73,013 and \$69,883 for the years ended December 31, 2020 and 2019, 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.

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.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

1. Summary of Significant Accounting Policies (Continued)

Recent Accounting Pronouncements

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, 2020 and 2019

2. Contributions receivable

Contributions receivable were \$46,795 and \$21,579 as of December 31, 2020 and 2019, respectively. The contributions receivable have been discounted to an estimated present value using a 7.38% and 7.66% rate, respectively, over the remaining life of the receivable.

Contributions receivable are summarized as follows at December 31:

	<u>2020</u>	<u>2019</u>
Less than 1 year	\$ 44,300	\$ 15,300
1 to 5 years	4,000	6,800
	48,300	22,100
Less discount	<u>(1,505)</u>	<u>(521)</u>
Net contributions receivable	<u>\$ 46,795</u>	<u>\$ 21,579</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, 2020 and 2019. 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>2020</u>	<u>2019</u>
Mortgages receivable	\$ 6,040,059	\$ 7,147,373
Less discount	<u>(2,202,560)</u>	<u>(2,810,242)</u>
Net mortgages receivable	<u>\$ 3,837,499</u>	<u>\$ 4,337,131</u>

In 2020, the Organization entered into an agreement whereby it sold packages of mortgage loans to local financial institutions. The mortgage loans were sold at 85% of the undiscounted carrying value. The Organization has guaranteed the performance of these loans to the financial institutions. Should a homeowner default on their payment, the Organization has the option of repurchasing the loan, or replacing the non-performing loan with one that is performing, subject to the financial institutions acceptance of the replacement loan.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

4. Property and equipment

Property and equipment consisted of the following at December 31:

	<u>2020</u>	<u>2019</u>
Furniture and equipment	\$ 103,402	\$ 66,125
Transportation equipment	93,957	90,657
Leasehold improvements	31,545	31,545
Warehouse	149,984	149,984
	<u>378,888</u>	<u>338,311</u>
Less accumulated depreciation	<u>(190,338)</u>	<u>(161,453)</u>
	<u>\$ 188,550</u>	<u>\$ 176,858</u>

Depreciation charged to expense on the Statement of Functional Expenses was \$17,687 and \$16,665 for the years ended December 31, 2020 and 2019, respectively. Additional depreciation included in direct expense of Habitat's ReStore was \$5,127 and \$6,164 for the years ended December 31, 2020 and 2019, respectively.

5. Note payable - bank

The notes payable to a bank consist of the following at December 31, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
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>\$ 44,309</u>	<u>\$ 56,534</u>

Future principal payments on the note payable to a bank as of December 31, 2020 are as follows:

2021	\$ 12,920
2022	13,581
2023	14,276
2024	<u>3,532</u>
	<u>\$ 44,309</u>

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

6. 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:

	2020
2021	\$ 6,446
Less: Imputed interest	(1,387)
Total capital leases	<u>\$ 5,059</u>

At December 31, 2020 and 2019, the carrying value of the truck being leased, net of accumulated depreciation, was \$5,060 and \$11,131, 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, 2020 and 2019.

7. Net assets without donor restrictions

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

	2020	2019
Undesignated	\$ 6,675,562	\$ 5,935,571
Board designated - operating reserve	250,000	250,000
	<u>\$ 6,925,562</u>	<u>\$ 6,185,571</u>

8. Net assets with donor restrictions

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

	2020	2019
Home construction	\$ 1,913	\$ 1,913
Lot purchase	-	15,982
Equipment	5,000	-
Christmas party	190	-
Home repair	35,000	-
	<u>\$ 42,103</u>	<u>\$ 17,895</u>

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

9. Financial assets and liquidity resources

The following schedule reflects the Organization's financial assets available for general expenditure as of December 31, 2020 and 2019, 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:

	2020	2019
Financial assets:		
Cash and cash equivalents	\$ 2,283,339	\$ 821,465
Certificates of deposit	273,393	617,183
Accounts receivable	107,742	21,348
Contributions receivable	46,795	21,579
	<u>2,711,269</u>	<u>1,481,575</u>
Less those unavailable for general expenditures within one year, due to:		
Restricted by donor with purpose restrictions:		
Home construction	1,913	1,913
Lot purchase	-	15,982
Equipment	5,000	-
Christmas party	190	-
Home repair	35,000	-
	<u>42,103</u>	<u>17,895</u>
Board designated:		
Operating reserve	250,000	250,000
	<u>292,103</u>	<u>267,895</u>
Total financial assets available to meet cash need for general purpose expenditures within one year	<u>\$ 2,419,166</u>	<u>\$ 1,213,680</u>

10. 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:

	2020	2019
Statement of functional expense - Tithe	<u>\$ 21,757</u>	<u>\$ 21,270</u>

Wichita Habitat for Humanity had accounts payable of \$474 and \$499 to Habitat for Humanity International as of December 31, 2020 and 2019, respectively.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

11. 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, 2020, increasing rent to \$2,785 through June 30, 2021. Lease expense related to office space for the years ended December 31, 2020 and 2019 was \$30,795 and \$31,550, respectively. Subsequent to year end, the lease was again renegotiated to reduce space. The revised lease was effective January 4, 2021, decreasing rent to \$2,175 through December 31, 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, 2020 and 2019 was \$100,750 and \$100,750, respectively.

Future minimum lease payments required under these leases at December 31, 2020 are as follows:

	Administrative Office	Habitat's ReStore	Total
2021	\$ 26,100	\$ 105,271	\$ 131,371
2022	-	108,500	108,500
2023	-	45,208	45,208
	\$ 26,100	\$ 258,979	\$ 285,079

12. 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 \$19,500 and \$19,000 of their compensation for 2020 and 2019, respectively. The Organization matches 50% of contributions made up to 7% of their compensation. Total expense for the plan was \$22,396 and \$23,670 for the years ended December 31, 2020 and 2019, respectively.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

13. 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, 2020, the Organization's uninsured cash balances totaled approximately \$1,753,637. Management does not believe it is exposed to significant credit risk.

14. 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.

15. Paycheck protection program

On April 20, 2020, the Organization qualified for and received a loan pursuant to the Paycheck Protection Program, a program implemented by the U.S. Small Business Administration under the Coronavirus Aid, Relief, and Economic Security Act, from a qualified lender (the "PPP Lender"), for an aggregate principal amount of \$246,700 (the "PPP Loan"). The PPP Loan bears interest at a fixed rate of 1.0% per annum, with the first six months of interest deferred, has a term of eighteen months, and is unsecured and guaranteed by the U.S. Small Business Administration. The principal amount of the PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protections Program, including payroll costs, covered rent and mortgage obligations, and covered utility payments incurred by the Organization. The Organization applied for forgiveness of the PPP Loan with respect to the covered expenses and was approved for full forgiveness in October 2020. Accordingly, the Organization considered the PPP funds a conditional contribution in accordance to FASB ASC 958-605. Revenue is recognized as conditions are met by incurring the covered costs.

Wichita Habitat for Humanity, Inc.
Notes to Financial Statements
For the Years Ended December 31, 2020 and 2019

16. Contingencies

The COVID-19 pandemic has impacted and could further impact the Organization's operations and the operation of the Organization's suppliers and vendors as a result of quarantines, facility closures, and travel and logistic restriction. The extent to which the COVID-19 pandemic impacts the Organization's business, results of operation and financial condition will depend on future developments, which are highly uncertain and cannot be predicted, including, but not limited to the duration, spread, severity, and impact of the COVID-19 pandemic, the effects of the COVID-19 pandemic on the Organization's customers, supplier and vendors and the remedial actions and stimulus measures adopted by local and federal governments, and to what extent normal economic and operating conditions can resume. Even after the COVID-19 pandemic has subsided, the Organization may continue to experience adverse impacts to its business as a result of any economic recession or depression that has occurred or may occur in the future. The Organization continues to monitor evolving economic and general business conditions and the actual and potential impacts on the financial position, results of operations, and cash flows but cannot reasonably estimate the impact at this time.

17. Reclassification

Certain amounts in the 2020 financial statements have been reclassified to conform to the 2021 presentation.

18. Subsequent events

Sale of Mortgages

Subsequent to December 31, 2020, the Organization sold selected mortgages receivable to a local financial institutions. The gross amount of gross receivables sold was approximately \$800,000 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.

Second Paycheck Protection Program Loan

Subsequent to December 31, 2020, the Organization obtained a second Paycheck Protection Program loan of \$268,850. Similar to the original PPP Loan is subject to forgiveness under the Paycheck Protection Program upon the Organization's request to the extent that the PPP Loan proceeds are used to pay expenses permitted by the Paycheck Protections Program

Management review

Subsequent events were evaluated through July 16, 2021, 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, 2020 and 2019

	<u>2020</u>	<u>2019</u>
Salaries	\$ 359,088	\$ 331,128
Employee benefits	25,600	23,778
Payroll taxes	30,743	27,524
Professional fees	1,536	522
Supplies	18,361	15,421
Telephone	5,237	4,767
Postage and shipping	11	-
Occupancy	202,481	208,124
Printing	-	564
Repairs	2,070	1,778
Advertising	73,013	69,883
Auto	18,854	28,741
Food	43	-
Dues and subscriptions	320	1,024
Fees	22,559	21,830
Other	1,722	1,746
Volunteer Recognition	47	78
Insurance	20,040	20,096
Depreciation	5,127	6,164
	<u> </u>	<u> </u>
Total direct expenses of Habitat's ReStore	<u>\$ 786,852</u>	<u>\$ 763,168</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