

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2019

**(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE
YEAR ENDED JUNE 30, 2018)**

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS
FOR THE YEAR ENDED JUNE 30, 2018)

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Metropolitan Camden Habitat for Humanity, Inc.
Pennsauken, New Jersey

Report on the Financial Statements

We have audited the accompanying financial statements of **METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.** (a non-profit organization), which comprise the statement of financial position as of June 30, 2019, and the related statements of activities, functional expenses, and cash flows for the year 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 the 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of **METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.** as of June 30, 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of **METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.** as of June 30, 2018 and for the year then ended, were audited by other auditors whose opinion, dated February 26, 2019, expressed an unmodified opinion on those financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Hoefele, Flanagan & Co., p.c.

Maple Shade, New Jersey
January 15, 2020

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS AS OF JUNE 30, 2018)

ASSETS

	2019	2018
Current assets		
Cash and cash equivalents	\$ 218,990	\$ 175,277
Cash and cash equivalents - restricted for properties	46,358	75,956
Current portion of mortgage notes receivable	83,428	84,789
ReStore inventory	240,210	177,951
Prepaid expenses and other current assets	1,905	47,245
Total current assets	590,891	561,218
Property and equipment		
Office and warehouse	123,574	123,574
Leasehold improvements	40,273	40,273
Tools and office equipment	22,415	19,144
	186,262	182,991
Less accumulated depreciation	(107,619)	(95,474)
Property and equipment, net	78,643	87,517
Other assets		
Mortgage notes receivable, net	194,048	242,076
Construction in progress	208,507	142,498
Security deposit, ReStore	4,370	4,370
Loan payable deposit	8,572	8,572
Total other assets	415,497	397,516
 Total Assets	 \$ 1,085,031	 \$ 1,046,251

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

LIABILITIES AND NET ASSETS

	<u>2019</u>	<u>2018</u>
Current liabilities		
Current portion of loan payable	\$ 28,647	\$ 26,899
Current portion of capital lease obligation	2,408	2,200
Accounts payable and accrued expenses	<u>30,960</u>	<u>68,702</u>
Total current liabilities	62,015	97,801
Capital lease obligation, net	4,772	7,180
Loan payable, net	<u>110,697</u>	<u>139,344</u>
Total liabilities	<u>177,484</u>	<u>244,325</u>
Net Assets		
Without donor restrictions	897,547	801,926
With donor restrictions	<u>10,000</u>	<u>-0-</u>
Total net assets	<u>907,547</u>	<u>801,926</u>
Total liabilities and net assets	<u>\$ 1,085,031</u>	<u>\$ 1,046,251</u>

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

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
REVENUE AND SUPPORT				
Foundation and corporate grants	\$ 280,390	\$ 10,000	\$ 290,390	\$ 283,579
Gifts and donations - individuals	79,580	-0-	79,580	73,922
Gifts and donations - congregations	526	-0-	526	4,692
Non-cash inventory contributions	706,854	-0-	706,854	695,031
Home sales	267,000	-0-	267,000	340,000
ReStore sales	790,386	-0-	790,386	686,726
Program income	5,642	-0-	5,642	10,855
Interest and other investment income	327	-0-	327	3,421
Mortgage discount	66,463	-0-	66,463	44,500
Miscellaneous income	5,193	-0-	5,193	3,179
	2,202,361	10,000	2,212,361	2,145,905
EXPENSES				
Program services				
Program services	348,268	-0-	348,268	631,001
ReStore program	1,427,943	-0-	1,427,943	1,258,079
Total program services	1,776,211	-0-	1,776,211	1,889,080
Supporting services				
Administrative	263,745	-0-	263,745	287,919
Resource development	66,784	-0-	66,784	50,756
Total supporting services	330,529	-0-	330,529	338,675
Total expenses	2,106,740	-0-	2,106,740	2,227,755
Change in net assets	95,621	10,000	105,621	(81,850)
Net assets, beginning of year	801,926	-0-	801,926	883,776
Net assets, end of year	\$ 897,547	\$ 10,000	\$ 907,547	\$ 801,926

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

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2019
(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	2019					2018	
	Program Services	ReStore Program	Total Program	Administrative	Resource Development	Total	Total
Salaries	\$ -0-	\$ 329,948	\$ 329,948	\$ 120,561	\$ 60,830	\$ 511,339	\$ 420,398
Employee benefits	-0-	19,453	19,453	21,172	-0-	40,625	20,152
Payroll taxes	-0-	40,285	40,285	19,981	-0-	60,266	48,805
Payroll services	-0-	13,889	13,889	3,000	-0-	16,889	16,758
Cost of goods sold, in-kind contributions	-0-	644,595	644,595	-0-	-0-	644,595	628,130
Cost of goods sold, purchased goods for resale	-0-	83,532	83,532	-0-	-0-	83,532	58,596
Cost of home sales	323,375	-0-	323,375	-0-	-0-	323,375	573,948
Advertising	-0-	14,340	14,340	5,089	-0-	19,429	37,560
Bank and merchant fees	-0-	12,281	12,281	517	-0-	12,798	10,435
Depreciation	-0-	11,781	11,781	364	-0-	12,145	9,928
Habitat tithe	1,000	-0-	1,000	-0-	-0-	1,000	1,000
Hospitality	-0-	-0-	-0-	744	-0-	744	1,905
Insurance	-0-	32,510	32,510	24,214	-0-	56,724	67,282
Interest	-0-	-0-	-0-	8,150	-0-	8,150	9,574
Mortgage servicing	-0-	-0-	-0-	4,774	-0-	4,774	8,791
Office supplies and expense	-0-	8,235	8,235	8,450	-0-	16,685	6,490
Other project expenses	17,990	-0-	17,990	-0-	-0-	17,990	40,101
Other ReStore expenses	-0-	10,587	10,587	-0-	-0-	10,587	5,889
Printing	-0-	468	468	-0-	-0-	468	1,247
Professional fees	-0-	-0-	-0-	23,510	-0-	23,510	19,620
Rent	-0-	148,850	148,850	4,419	-0-	153,269	159,226
Repairs and maintenance	-0-	6,696	6,696	109	-0-	6,805	4,710
Resource development	-0-	-0-	-0-	-0-	5,954	5,954	7,903
SOSI fee	-0-	-0-	-0-	15,525	-0-	15,525	15,550
Telephone	-0-	-0-	-0-	2,562	-0-	2,562	2,651
Tools and equipment	-0-	3,796	3,796	-0-	-0-	3,796	3,605
Utilities	-0-	24,810	24,810	604	-0-	25,414	23,439
Vehicle expenses	5,903	21,887	27,790	-0-	-0-	27,790	24,062
Total expenses	\$ 348,268	\$ 1,427,943	\$ 1,776,211	\$ 263,745	\$ 66,784	\$ 2,106,740	\$ 2,227,755

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2019

(WITH SUMMARIZED COMPARATIVE TOTALS FOR THE YEAR ENDED JUNE 30, 2018)

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 105,621	\$ (81,850)
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	12,145	9,928
Mortgage discount amortization	(66,463)	(44,500)
(Increase) decrease in:		
Accounts receivable	-0-	11,050
Mortgage notes receivable	115,852	80,179
ReStore Inventory	(62,259)	(66,901)
Prepaid expenses and other current assets	45,340	(14,490)
Real estate held for sale	-0-	150,591
Construction in progress	(66,009)	45,403
Increase (decrease) in:		
Accounts payable and accrued expenses	(37,742)	44,345
Net cash provided by operating activities	46,485	133,755
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(3,271)	(520)
Net cash used in investing activities	(3,271)	(520)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayments of capital lease obligation	(2,200)	-0-
Repayments of long-term debt	(26,899)	(68,268)
Net cash used in financing activities	(29,099)	(68,268)
Net increase in cash and cash equivalents	14,115	64,967
Cash and cash equivalents, beginning of year	251,233	186,266
Cash and cash equivalents, end of year	\$ 265,348	\$ 251,233
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash and cash equivalents - without donor restrictions	\$ 218,990	\$ 175,277
Cash and cash equivalents - restricted for properties	46,358	75,956
	\$ 265,348	\$ 251,233

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

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 1 – Nature of Activities

Metropolitan Camden Habitat for Humanity, Inc., also trading as Camden County Habitat for Humanity, (the “Organization”) is a New Jersey not-for-profit corporation dedicated to partnering with people and organizations to build and renovate houses for those in need of affordable, decent homes in Camden County, New Jersey. In addition, the Organization fosters and empowers healthy communities through educational programs in personal finance, successful homeownership, and job training in the construction trades. The Organization is an affiliate of Habitat for Humanity International, Inc. (“HFHI”), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists the Organization with information, resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for its own operations.

The Organization also owns and operates a Habitat for Humanity ReStore in which they collect new and gently-used building materials, furniture, and appliances for the purposes of reselling the items to the public at a discounted price.

Note 2 – Summary of Significant Accounting Policies

Change for New Pronouncement

In August 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-14, “Not-for-Profit Entities (Topic 958) - Presentation of Financial Statements for Not-for-Profit Entities.” This ASU addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Organization adopted this standard, effective July 1, 2018, and such adoption had no impact on the Organization’s net asset balances or changes in net assets. This ASU has been applied retrospectively to all periods presented.

Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting, and accordingly, reflects all significant receivables, payables, and other liabilities. Consequently, revenue is recognized when earned and expenses are recognized when the obligations are incurred.

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Basis of Presentation

To ensure the observance of limitations and restrictions placed on the use of resources available to the Organization, its net assets and revenues have been reported according to the following classifications:

Net Assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of the Organization’s management and the Board of Trustees.

Net Assets with Donor Restrictions: Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America (“GAAP”) requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities as of the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Although management believes the estimates that have been used are reasonable, actual results could vary from the estimates that were used.

Contributions

Contributions received are recorded as net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a 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 Statement of Activities as net assets released from restrictions.

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Home Sales and Mortgage Notes Receivable

Sales to homeowners are recorded at the gross amount with the sales price determined by comparable home sales in similar markets. The Organization records mortgage notes receivable when mortgage amounts are contracted to be received. On home sales originated after October 31, 2012, the Organization's policy is for home buyers to acquire their own mortgages and the Organization receives full payment at the time of sale. Mortgages on home sales with sale dates prior to October 31, 2012 are serviced by an outside third party mortgage servicer. The third party collects all mortgage and escrow payments and transfers principal payments to the Organization on a monthly basis. These non-interest bearing mortgages have been discounted using a discount rate established by HFHI, based on the Internal Revenue Service ("IRS") Index of Applicable Federal Rates Rulings for low income housing tax credits. Utilizing a straight-line basis, this discount is recognized as income over the term of the mortgage note.

Historically, the Organization has had no need for an allowance for doubtful accounts and has a history of no write-offs. However, should receivable balances remain outstanding after management has used reasonable collection efforts and if foreclosure is imminent, the Organization would establish an allowance for doubtful accounts.

Donated Services

Volunteers contribute significant amounts of time to program and support services; however, the financial statements do not reflect the value of these contributed services because they do not meet the necessary criteria for recognition under GAAP. The Organization recognizes volunteer services if the services received (1) create or enhance non-financial assets or (2) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation. In-kind contributions of services, if any, are recorded as both revenue and expense and therefore, there is no effect on the change in net assets.

ReStore Inventory

ReStore inventory consists of purchased and donated items and supplies. Inventory is stated at the lower of cost or net realizable value. Cost is determined by the specific identification method if purchased, or fair value if donated. Net realizable value is equal to the donated thrift shop value determined by selling price.

The Organization receives significant donations of goods during the year in addition to the items that are purchased. The donated goods have been recorded as both a contribution and increase in inventory. When sold, the Organization recognizes a program expense at a value equal to the

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

ReStore Inventory (continued)

donated value. The value of donated goods sold, included as non-cash contributions in the accompanying financial statements, are included in the corresponding cost of goods sold expense accounts on the Statement of Activities.

Property and Equipment and Depreciation

Property and equipment are recorded at cost if purchased or at fair value if donated. Depreciation is provided using the straight-line method over the estimated useful lives of the assets. The estimated useful lives of assets for financial reporting purposes are as follows: office and warehouse, 25 years; leasehold improvements, 10 years; and tools and office equipment, range from 5 to 10 years. The Organization capitalizes all property and equipment purchased with a cost of \$500 or more. Maintenance and repairs are charged to expense as incurred; major renewals and betterments are capitalized. When items of property or equipment are sold or retired, the related costs and accumulated depreciation are removed from the accounts and any gain or loss is included in income.

The Organization reviews the carrying value of its property and equipment for impairment whenever events and circumstances indicate that the carrying value of an asset may not be recoverable from the estimated future cash flows expected to result from its use and eventual disposition. In cases where undiscounted expected cash flows are less than the carrying value, an impairment loss is recognized equal to an amount by which the carrying value exceeds the fair value of assets. Based on these reviews, there were no adjustments to the carrying value of long-lived assets for the year ended June 30, 2019.

Depreciation expense for the year ended June 30, 2019 was \$12,145.

Construction in Progress

The amounts included in construction in progress consist of capitalized costs associated with the renovation of properties that the Organization holds with future plans to sell. Costs associated with the renovation of properties, including labor costs, are capitalized. When the property is sold, the related costs are offset against the sale price and the excess revenue or expense is reflected in the Statement of Activities. Any excess revenue from the sale of a property is used to offset overhead costs and to provide for the continuation of the Organization's mission.

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Advertising

Advertising costs are expensed when incurred. Advertising expense for the year ended June 30, 2019 was \$19,429.

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 Activities. Accordingly, certain costs have been allocated among the programs, administrative, and resource development categories benefited. Specific expenses that are readily identifiable to a single program or activity are charged directly to that function. Salaries and benefits related costs are allocated on the basis of time and effort; facility costs, including rent, repairs and maintenance, utilities, and depreciation are allocated using an estimate of square footage as determined by an internal audit done by HFHI.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code. The Organization follows the accounting guidance for uncertainty in income taxes, which prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return and also provides guidance on various related matters such as derecognition, interest, penalties, and disclosures required. The Organization believes that it has appropriate support for any tax position taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's Federal Exempt Organization informational returns (Form 990) for 2018, 2017, and 2016 are subject to examination by the IRS, generally for three years after filing.

Statement of Cash Flows

The Organization considers all highly liquid financial instruments with original maturities of three months or less to be cash equivalents.

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Recent Accounting Pronouncements Not Yet Adopted

Revenue Recognition

In May 2014, the FASB issued ASU 2014-09, “Revenue from Contracts with Customers (Topic 606),” which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes and replaces nearly all existing GAAP revenue recognition guidance, including industry-specific guidance. The core principle of the standard is that revenue is recognized when the transfer of goods or services to customers occurs in an amount that reflects the consideration to which the Organization expects to be entitled in exchange for those goods or services. The standard provides a five-step analysis of transactions to determine when and how revenue is recognized. The standard requires significantly expanded disclosures about revenue recognition and is effective for fiscal years beginning after December 15, 2018. The Organization is in the process of implementing the provisions of ASU 2014-09, but has not yet determined its impact on the financial statements.

Leases

In February 2016, the FASB issued ASU 2016-02 “Leases (Topic 842).” The primary objective of the standard is to increase transparency and comparability among organizations by requiring lessees to recognize lease assets and lease liabilities on the Statement of Financial Position and disclosing key information about leasing arrangements. The new standard clarifies the definition of a lease and causes lessees to recognize leases on the Statement of Financial Position as a lease liability with a corresponding right-of-use asset. The standard is effective for fiscal years beginning after December 15, 2020. Early adoption is permitted. The Organization is currently evaluating the standard and its impact on the financial statements.

Prior-Year Summarized Comparative Financial Information

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization’s financial statements for the year ended June 30, 2018, from which the summarized information was derived.

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 2 – Summary of Significant Accounting Policies (continued)

Reclassifications

Certain items in the 2018 financial statements were reclassified to conform with the 2019 financial statement presentation. Total net assets and the change in net assets remain unchanged as a result of these reclassifications. Also see Note 11 for additional adjustments in the form of prior period adjustments to the financial statements.

Note 3 – Cash and Cash Equivalents

The Organization maintains cash and cash equivalents at various financial institutions. Accounts are insured by the Federal Deposit Insurance Corporation up to \$250,000 per depositor. At June 30, 2019, amounts in excess of insured limits totaled \$20,774.

Note 4 – Availability and Liquidity

The following represents the Organization's financial assets at June 30, 2019:

Financial assets at year end:	
Cash and cash equivalents	\$ 218,990
Cash and cash equivalents – restricted for properties	46,358
Current portion of mortgage notes receivable	<u>83,428</u>
	<u>348,776</u>
 Net assets with donor restrictions	 10,000
 Less net assets with purpose restrictions to be met in less than one year	 (<u>10,000</u>)
 Financial assets available to meet general expenditures over the next twelve months	 <u>\$ 348,776</u>

The Organization regularly monitors liquidity required to meet its operating needs and other contractual commitments, while striving to maximize the investment of its available funds. The Organization typically maintains its financial assets other than receivables and promises to give in cash accounts or investments available for sale with a goal of having funds available when needed.

In addition to financial assets available to meet general expenditures over the next 12 months, the Organization operates with a balanced budget and anticipates collecting sufficient revenue to cover general expenditures not covered by donor restricted resources.

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 5 – Mortgage Notes Receivable

At June 30, 2019, mortgage notes receivable consists of loans on properties that were developed by the Organization. These loans are noninterest bearing, with maturities ranging from 15 to 30 years, and are secured by the related properties. At June 30, 2019, the balance of mortgage notes receivable was \$763,624.

The Organization accounts for its mortgage notes in accordance with the HFHI's U.S. Affiliate Accounting Policy Manual. Under this guide, the non-interest bearing mortgage notes are discounted to their present value at the time the mortgage note is issued, using an imputed interest rate, averaging approximately 8% (see Note 2, home sales and mortgage notes receivable, for discussion on rate). The discounted amount is amortized over the term of the mortgage note on the straight line method.

The balance of mortgage notes receivable on a net basis at June 30, 2019 is as follows:

Mortgage notes receivable, gross	\$ 763,624
Current portion of mortgage notes receivable	<u>(83,428)</u>
	680,196
Unamortized discount	<u>(486,148)</u>
Mortgage notes receivable, net	<u>\$ 194,048</u>

Principal maturities of mortgage notes receivable at June 30, 2019 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 69,002
2022	67,116
2023	65,153
2024	58,724
2025	45,264
Thereafter	<u>374,937</u>
	<u>\$ 680,196</u>

Total mortgage discount amortization of \$66,463 for the year ended June 30, 2019 includes additional amortization of \$23,745 due to the repayment of a mortgage note during the year.

METROPOLITAN CAMDEN HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019

Note 6 – Loan Payable

In December 2013, the Organization obtained a FlexCAP loan from HFHI in the amount of \$274,900. The loan is payable in 120 monthly installments of \$2,857, which includes interest of 4.50%. The loan is secured by certain mortgage notes held by the Organization. At June 30, 2019, the amount owed on the loan was \$139,344, of which the current portion was \$28,647.

Principal maturities of the long-term loan payable at June 30, 2019 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2021	\$ 29,963
2022	31,340
2023	32,780
2024	<u>16,614</u>
	<u>\$ 110,697</u>

Upon issuance of the loan payable, the Organization was required to prepay one quarter of payments toward the balance as a loan reserve. At June 30, 2019, the loan deposit balance was \$8,572.

Note 7 – Net Assets with Donor Restrictions

Net assets with donor restrictions are available for the following programs or purposes at June 30, 2019:

Purpose restrictions:	
949 Monitor Road Home Project	\$ <u>10,000</u>

Note 8 – Leases

Operating Leases

In March 2012, the Organization entered into a building lease in Pennsauken, New Jersey. The lease provides for a monthly rental with annual escalations through March 2022. Total building lease expense, including real estate taxes and insurance, for the year ended June 30, 2019, included in rent on the Statement of Functional Expenses, was \$147,303.

In addition, the Organization also leases a vehicle under an operating lease agreement expiring in September 2019. The lease provides for a monthly rental amount of \$953 plus \$0.095 per mile driven. Total vehicle lease expense for the year ended June 30, 2019, included in vehicle expenses on the Statement of Functional Expenses, was \$13,969.

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Note 8 – Leases (continued)

Operating Leases (continued)

Future minimum lease payments under operating lease agreements as of June 30, 2019 are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 105,971
2021	106,979
2022	<u>73,038</u>
	<u>\$ 285,988</u>

Capital Leases

The Organization leases equipment under a capital lease agreement. The economic substance of the lease is that the Organization is financing the acquisition of the assets through the lease, and accordingly, it is recorded in the Organization's assets and liabilities. The lease agreement contains a bargain purchase option at the end of the lease term.

The following is an analysis of the leased asset included in property and equipment at June 30, 2019:

Tools and office equipment	\$ 9,900
Less accumulated depreciation	<u>(2,310)</u>
	<u>\$ 7,590</u>

Depreciation expense relating to the asset under the capital lease was \$1,980 for the year ended June 30, 2019.

Capital lease obligations on a net basis at June 30, 2019 are as follows:

Capital lease obligations, gross	\$ 7,180
Current portion of capital lease obligations	<u>(2,408)</u>
Capital lease obligations, net	<u>\$ 4,772</u>

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Note 8 – Leases (continued)

Capital Leases (continued)

The following is a schedule by years of the future minimum payments required under the lease with its present value as of June 30, 2019:

<u>Year ending June 30,</u>	<u>Amount</u>
2020	\$ 2,960
2021	2,960
2022	<u>2,218</u>
Total minimum lease payments	8,138
Less amount representing interest	<u>(958)</u>
Present value of minimum lease payments	<u>\$ 7,180</u>

Note 9 – Retirement Plan

The Organization has a 401(k) retirement plan for the benefit of all eligible employees. The plan currently does not provide for an Organization match, but the Organization is able to provide discretionary contributions to employees. During the year ended June 30, 2019, the Organization incurred retirement plan contributions for employees totaling \$10,000. This amount is included in employee benefits on the Statement of Functional Expenses.

Note 10 – Supplementary Disclosure of Cash Flow Information

For the year ended June 30, 2019, cash paid for interest was \$8,150.

Note 11 – Prior Period Adjustments

During the year ended June 30, 2019, the Organization discovered financial statement errors in the prior year that caused a collective understatement of net assets of \$19,547. The errors primarily relate to the understatement of the unamortized mortgage discount caused by the overstatement of the amortization of the discount in prior years, understatement of construction in progress due to not capitalizing all costs related to construction in prior years, and the understatement of cash due to applying an adjustment to insurance to cash in the prior year.

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Note 11 – Prior Period Adjustments (continued)

The following summarizes the prior period adjustment as referred to above:

Change in net assets for the year ended June 30, 2018, as previously reported	\$(89,914)
Prior period adjustments for:	
Understatement of operating cash balance	<u>8,064</u>
Prior period adjustment to the change in net assets for the year ended June 30, 2018	<u>8,064</u>
 Change in net assets for the year ended June 30, 2018, as restated	 \$(<u>81,850</u>)
 Net assets at July 1, 2017, as previously reported	 \$ 872,293
Prior period adjustments for:	
Understatement of unamortized mortgage discounts	(8,447)
Understatement of construction in progress	<u>19,930</u>
Prior period adjustment to net assets, July 1, 2017	<u>11,483</u>
 Net assets at July 1, 2017, as restated	 \$ <u>883,776</u>
 Net assets at June 30, 2018, as restated	 \$ <u>801,926</u>

Note 12 – Subsequent Events

The Organization evaluated subsequent events through January 15, 2020, the date these financial statements were available to be issued. There were no material subsequent events that required recognition or additional disclosures in these financial statements.