

**HABITAT FOR HUMANITY
OF SNOHOMISH COUNTY**

**FINANCIAL STATEMENTS WITH
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2019 AND 2018



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Snohomish County
Lynnwood, Washington

We have audited the accompanying financial statements of Habitat for Humanity of Snohomish County (a nonprofit organization), which comprise the statements of financial position as of June 30, 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. 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 Habitat for Humanity of Snohomish County as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Jones & Associates PLLC, CPAs

Jones & Associates PLLC, CPAs
July 7, 2020

TEL 206.525.5170
17544 Midvale Ave N, Suite 100
Shoreline, WA 98133
www.judyjonescpa.com

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
Cash and cash equivalents	\$ 19,999	\$ 78,396
Accounts and pledges receivable, current	101,154	1,944
Mortgages receivable, current	149,606	55,074
Property held for sale	-	370,000
Store inventory	87,105	101,718
Prepaid expenses and deposits	39,164	24,161
Total current assets	397,028	631,293
Accounts and pledges receivable, less current portion	200,000	-
Mortgages receivable, less current portion	1,633,249	1,710,185
Property and equipment, net	76,864	7,089
Property held for development	965,072	803,221
	\$ 3,272,213	\$ 3,151,788
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and other	\$ 17,960	\$ 33,087
Accrued payroll	64,998	59,215
Deferred rent	76,420	68,650
Line of credit	126,705	40,000
Debt, current	24,648	23,512
Total current liabilities	310,731	224,464
Debt, less current portion	769,460	787,801
Total liabilities	1,080,191	1,012,265
NET ASSETS		
Without donor restrictions	1,892,022	2,137,579
With donor restrictions	300,000	1,944
	2,192,022	2,139,523
	\$ 3,272,213	\$ 3,151,788

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2019

	Without Donors Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Public Support			
Grants and contributions	\$ 558,097	\$ 300,000	\$ 858,097
In-kind donations for resale	742,199	-	742,199
	<u>1,300,296</u>	<u>300,000</u>	<u>1,600,296</u>
Revenues			
Retail store revenues, net	-	-	-
Interest income - mortgages	12,653	-	12,653
Rental income	6,456	-	6,456
Investment and other	5,527	-	5,527
	<u>24,636</u>	<u>-</u>	<u>24,636</u>
Net assets released from restrictions			
Satisfaction of time restrictions	1,944	(1,944)	-
	<u>1,326,876</u>	<u>298,056</u>	<u>1,624,932</u>
EXPENSES			
Program services	959,184	-	959,184
Management and general	507,200	-	507,200
Fundraising and development	106,049	-	106,049
	<u>1,572,433</u>	<u>-</u>	<u>1,572,433</u>
CHANGE IN NET ASSETS	(245,557)	298,056	52,499
NET ASSETS			
Beginning of the year	<u>2,137,579</u>	<u>1,944</u>	<u>2,139,523</u>
End of the year	<u>\$ 1,892,022</u>	<u>\$ 300,000</u>	<u>\$ 2,192,022</u>

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2018

	Without Donors Restrictions	With Donor Restrictions	Total
SUPPORT AND REVENUES			
Public Support			
Grants and contributions	\$ 199,231	\$ 19,000	\$ 218,231
In-kind donations for resale	791,090	-	791,090
	<u>990,321</u>	<u>19,000</u>	<u>1,009,321</u>
Revenues			
Retail store revenues, net	18,892	-	18,892
Interest income - mortgages	80,906	-	80,906
Rental income	36,528	-	36,528
Investment and other	10,025	-	10,025
Impairment loss - property held for sale	(36,901)	-	(36,901)
	<u>109,450</u>	<u>-</u>	<u>109,450</u>
Net assets released from restrictions			
Satisfaction of program restrictions	19,000	(19,000)	-
Satisfaction of time restrictions	1,972	(1,972)	-
	<u>1,120,743</u>	<u>(1,972)</u>	<u>1,118,771</u>
EXPENSES			
Program services	875,610	-	875,610
Management and general	501,386	-	501,386
Fundraising and development	75,750	-	75,750
	<u>1,452,746</u>	<u>-</u>	<u>1,452,746</u>
CHANGE IN NET ASSETS	(332,003)	(1,972)	(333,975)
NET ASSETS			
Beginning of the year	<u>2,469,582</u>	<u>3,916</u>	<u>2,473,498</u>
End of the year	<u>\$ 2,137,579</u>	<u>\$ 1,944</u>	<u>\$ 2,139,523</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	Program Services			Support Services		
	Construction	Store	Total	Management & General	Fundraising	Total
Salaries and wages	\$ 61,891	\$ 390,737	\$ 452,628	\$ 298,194	\$ 52,028	\$ 802,850
Occupancy	-	270,206	270,206	71,910	-	342,116
Second mortgages forgiven	74,573	-	74,573	-	-	74,573
Professional services	-	6,146	6,146	41,398	13,995	61,539
Taxes and fees	11,533	29,722	41,255	5,832	-	47,087
Office expenses	1,768	19,008	20,776	10,675	2,390	33,841
Dues and subscriptions	215	5,623	5,838	24,784	2,878	33,500
Insurance	14,537	1,102	15,639	13,053	-	28,692
Printing and publication	55	4,157	4,212	4,276	18,268	26,756
Equipment	146	20,338	20,484	706	2,305	23,495
Interest	8,633	-	8,633	12,925	-	21,558
Closing costs	18,884	-	18,884	-	-	18,884
Volunteer recognition	507	9,718	10,225	3,422	-	13,647
Travel and training	2,914	2,808	5,722	5,978	542	12,242
Meetings	192	418	610	1,520	7,040	9,170
Depreciation	-	-	-	5,838	-	5,838
Advertising	50	392	442	2,786	2,485	5,713
Postage and shipping	-	299	299	1,113	1,671	3,083
Rental bad debt	-	-	-	2,790	-	2,790
Miscellaneous	2,438	174	2,612	-	3	2,615
Special events	-	-	-	-	2,444	2,444
Total expenses	198,336	760,848	959,184	507,200	106,049	1,572,433
Cost of sales	-	757,143	757,143	-	-	757,143
Total functional expenses	\$ 198,336	\$ 1,517,991	\$ 1,716,327	\$ 507,200	\$ 106,049	\$2,329,576

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	Program Services			Support Services		
	Operations	Store	Total	Management & General	Fundraising	Total
Salaries and wages	\$ 56,037	\$ 372,590	\$ 428,627	\$ 252,715	\$ 49,882	\$ 731,224
Occupancy	-	251,469	251,469	58,490	-	309,959
Second mortgages forgiven	41,937	-	41,937	-	-	41,937
Professional services	1,230	4,393	5,623	61,530	3,250	70,403
Taxes and fees	15,870	22,951	38,821	9,112	-	47,933
Office expenses	9,632	21,064	30,696	9,700	1,858	42,254
Dues and subscriptions	745	5,400	6,145	26,263	2,883	35,291
Insurance	8,951	1,811	10,762	7,634	-	18,396
Printing and publication	-	3,508	3,508	4,155	9,247	16,910
Equipment	3,339	14,158	17,497	3,295	480	21,272
Interest	11,294	-	11,294	6,107	-	17,401
Volunteer recognition	137	8,723	8,860	6,766	7	15,633
Travel and training	-	119	119	12,539	-	12,658
Meetings	2,567	1,242	3,809	656	2,401	6,866
Depreciation	5,879	8,606	14,485	-	-	14,485
Advertising	-	874	874	5,950	489	7,313
Postage and shipping	-	100	100	1,121	2,520	3,741
Rental bad debt	-	-	-	25,439	-	25,439
Miscellaneous	276	708	984	9,413	100	10,497
Special events	-	-	-	-	2,633	2,633
Information technology	-	-	-	501	-	501
Total expenses	157,894	717,716	875,610	501,386	75,750	1,452,746
Cost of sales	-	774,947	774,947	-	-	774,947
Total functional expenses	<u>\$ 157,894</u>	<u>\$ 1,492,663</u>	<u>\$ 1,650,557</u>	<u>\$ 501,386</u>	<u>\$ 75,750</u>	<u>\$2,227,693</u>

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash received from grants and contributions	\$ 558,887	\$ 218,231
Cash received from retail sales and rental income	778,212	822,520
Cash received from investment return and other	5,527	10,025
Cash paid related to employees and suppliers	(1,501,985)	(1,359,232)
Cash paid for interest	(21,558)	(17,401)
	(180,917)	(325,857)
CASH FLOWS FROM INVESTING ACTIVITIES		
Receipt of mortgages receivable	75,484	78,376
Proceeds from sale of property	215,000	-
Purchase of property and equipment	(75,613)	(1,780)
Capitalized expenditures for property held for development	(161,851)	(162,745)
	53,020	(86,149)
CASH FLOWS FROM FINANCING ACTIVITIES		
Line of credit proceeds, net	86,705	40,000
Debt repayment	(17,205)	(16,418)
	69,500	23,582
NET CHANGE IN CASH AND EQUIVALENTS	(58,397)	(388,424)
CASH AND CASH EQUIVALENTS		
Beginning of the year	78,396	466,820
End of the year	\$ 19,999	\$ 78,396
Supplemental Cash Flow Information		
Non-cash investing activities		
Issuance of mortgage receivable for property sale	\$ 155,000	\$ -

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – Habitat for Humanity of Snohomish County (the Agency), a Washington nonprofit corporation, is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create affordable housing for those in need, and to make shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, publications and training, the Agency is directly responsible for conducting its own operations on a self-sustaining basis.

The Agency builds houses using primarily volunteer labor, together with purchased and donated materials and land. The houses are sold to qualified low-income homebuyers at a price determined by the Board of Directors which is generally cost or an amount below cost. Cost includes both direct expenditures and the fair value of in-kind contributions for materials, but excludes the value of volunteer labor. Prospective purchasers are required to meet certain minimum participation requirements in the construction of their homes.

The Agency operates a retail store at two locations in Snohomish County. These stores accept donations of home furnishings and building materials. The proceeds from store sales are used to support the ongoing activities related to the Agency's primary mission.

Basis of Accounting and Presentation – The financial statements of the Agency have been prepared on the accrual basis of accounting and report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net Assets With Donor Restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. There were no donor-restricted net assets of a perpetual nature at June 30, 2019 and 2018.

The Agency reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restriction. Gifts of property and equipment and contributions restricted for the acquisition or construction of property and equipment are released when the assets are placed in service.

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Cash and Cash Equivalents – For purposes of the statements of cash flows, the Agency considers all checking and savings accounts and unrestricted highly liquid investments with an initial maturity of three months or less to be cash and cash equivalents.

Accounts and Pledges Receivable – Accounts and pledges receivables consist primarily of amounts due from donors and government agencies. Accounts and pledges receivable are stated at the amount management expects to collect from the outstanding balances. Receivables that are expected to be collected in more than one year have not been discounted to the present value of estimated cash flows based on the Agency’s determination that the discount would not be material to the financial statements. No allowance for uncollectible balances has established by management based upon the Agency’s historical experience in the collection of balances due.

Mortgages Receivable – Mortgages arise from the sale of homes to qualified low-income homebuyers, are secured by homes sold, and do not bear interest. The total payments to be received from homebuyers have been discounted using imputed interest rates as prescribed by generally accepted accounting principles. The resulting carrying value of the mortgages approximates fair value. The mortgages are due upon the earlier of the sale of the home, refinance or at maturity. Uncollectible mortgages are expected to be insignificant; accordingly, no provision for doubtful accounts has been included in the financial statements.

At the time the home is sold by the Agency, a first mortgage amount is determined with consideration to both the costs of construction and the homeowner’s income, and typically extend for terms of 20-30 years. The Agency records a second mortgage equal to the difference between the estimated fair market value of the home and the underlying first mortgage. Generally, no repayments are required on the second mortgage; rather, the mortgage may be forgiven ratably over terms of 15-25 years commencing with the sixth anniversary of the first mortgage.

A delinquent mortgage is considered non-performing if no payment has been received in the previous 90 days and no attempt has been made by the homeowner to contact the Agency to work out a payment plan. At that time, foreclosure procedures may begin.

Inventory – Inventory consists of donated building materials and furnishings held for re-sale at the Agency’s retail stores. The amount presented on the statements of financial position is estimated based on six weeks of store revenues for the year which is consistent with previous years. This method is not materially different from methods prescribed by generally accepted accounting principles and is determined to be a reasonable estimate of fair value.

Property and Equipment – Property and equipment are carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method, currently over a period of 5 years. The Agency capitalizes purchases of property and equipment over a certain value, generally in excess of \$1,000, and a useful life greater than one year.

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

Property Held for Development – Property held for development consists of land, buildings, and construction in progress. Property held for development is carried at cost, or, if donated, at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over a period of 15 years for buildings which are rented during construction. No buildings were being rented at June 30, 2019 and 2018. The Agency capitalizes all expenditures related to construction.

Property Held for Sale – Property held for sale consists of land and buildings which are expected to be sold within one year. Amounts are reported at the lower of cost or fair market value.

Revenue Recognition – Revenue is recognized when earned. Grants and contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give are not recognized until the conditions on which they depend have been substantially met. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law.

Retail store revenues are recognized at the time of sale.

Home Sales and Cost Recognition – At the time a home is sold to a qualified buyer, the sale is recorded as revenue and the cost of the home is removed from property held for development on the statements of financial position. Historically, the Agency financed a portion of the sale of homes by offering qualifying mortgages to low-income homeowners secured by a first deed of trust, followed by a no-interest loan secured by a second deed of trust on the related property. During the years ended June 30, 2019 and 2018, all sales were financed by third parties for first deed of trust mortgages. In accordance with generally accepted accounting principles, revenue is recognized by discounting the future payments to be received from the homeowners using an interest rate based on term loans collateralized by mortgages receivable.

During the year ended June 30, 2019, the Agency sold a home and related parcel of property to a qualified buyer for a sales price of \$370,000. The buyer signed a first mortgage with a third party for \$215,000 and a second mortgage for \$155,000 related to the purchase. As the sale was anticipated at June 30, 2018, related land and building were reclassified on the statement of financial position as property held for sale with an impairment loss of \$36,901 recognized in the statement of activities for the year ended June 30, 2018.

In-kind Donations for Resale – The Agency estimates the value of donated goods received based upon net revenues generated from the sales of the donated goods. Using this method, management has estimated that the value of all goods donated to the Agency throughout the year is equal to revenues realized by the sale of these goods, as adjusted for year-end inventory.

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 1 – Nature of Activities and Summary of Significant Accounting Policies (continued)

In-kind Services – Donated services are recognized as revenue and corresponding expense when (a) the services received create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Agency. The Agency receives significant donated services from unpaid volunteers who assist in home building, retail operations and administrative tasks. The value of these contributed services are not recognized as contributions in the financial statements as there is no objective basis to measure the value of such services and / or the recognition criteria are not met.

Functional Allocation of Expenses – The statements of functional expenses present expenses by function and natural classification. Certain categories of expenses are attributed to more than one program or supporting function and have been allocated among the program and supporting services benefited. Payroll expenses are allocated on the basis of estimates of time and effort spent. The administrative office shares a building with the Lynnwood Store and shares the building expenses of rent and utilities on a percent of square footage basis. Certain office expenses (including the office share of building expense), such as telephone, postage, and copies & prints are shared evenly by the departments that use the office. The Store Support function (donation coordination and truck operations) expenses are apportioned to the Stores based on each store's projected percent of the total expected store group revenue.

Estimates – Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

Income Tax Status – The Agency is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. The Agency qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization other than a private foundation under Section 509(a)(1).

New Accounting Pronouncement – On August 18, 2016, the FASB issued Accounting Standards Update ASU 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)*. The ASU amends the current reporting model for nonprofit organizations and enhances the required disclosures. Significant changes include presenting only two classes of net assets; adding disclosures around liquidity and the availability of resources; and providing additional information about expenses. The Agency has adopted the ASU for the year ended June 30, 2019, and has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 2 – Liquidity and Availability

Financial assets available for general expenditure within one year of the statement of financial position date are as follows at June 30, 2019 :

Financial Assets	
Cash and cash equivalents	\$ 19,999
Accounts and pledges receivable	301,154
Total financial assets	<u>321,153</u>
Less those unavailable for general expenditures within one year:	
Receivable balances to be collected in 2020 or later	(200,000)
Financial assets available within one year	<u><u>\$ 121,153</u></u>

The Agency has some variation in revenues through the year, due to some seasonality of cash donations, timing of major grants and seasonality of store revenues. In some respects, these seasonalities balance each other. Summer is strong in store revenue, when cash donations tend to be weak. Calendar year-end giving is very strong while store revenue is weak through the holidays. To balance out these variations, Habitat maintains a \$150,000 line of credit to draw on and a money market savings account to hold short term cash balances.

Note 3 – Accounts and Pledges Receivable

Accounts and pledges receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Receivable in less than one year	\$ 101,154	\$ 1,944
Receivable in one to five years	200,000	-
	<u>\$ 301,154</u>	<u>\$ 1,944</u>

Note 4 – Mortgages Receivable

Mortgages receivable consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
First mortgages receivable, gross	\$ 1,455,778	\$ 1,527,027
Second mortgages receivable, gross	1,518,256	1,442,079
	2,974,034	2,969,106
Unamortized interest discount	(1,191,179)	(1,203,847)
Mortgages receivable, net	1,782,855	1,765,259
Less current portion	(149,606)	(55,074)
Mortgages receivable, long-term portion	<u>\$ 1,633,249</u>	<u>\$ 1,710,185</u>

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 4 – Mortgages Receivable (continued)

As of June 30, 2019, there were 44 total mortgages receivable, comprised of 20 first mortgages and 24 second mortgages. As of June 30, 2018, there were 45 total mortgages receivable, comprised of 21 first mortgages and 24 second mortgages.

Mortgages receivable have been discounted at interest rates between 4 and 7 percent. The imputed interest recorded as revenue on these mortgages was \$12,653 and \$80,906 for the years ended June 30, 2019 and 2018, respectively. Mortgage amounts of \$74,573 and \$41,937 were forgiven for the years ended June 30, 2019 and 2018, respectively, in accordance with the terms of the agreements.

As of June 30, 2019 and 2018, there was one delinquent mortgage considered non-performing with a gross balance due of \$132,752. Subsequent to year-end, in September 2019, the related property was sold and the Agency received proceeds of \$180,503 to satisfy the outstanding delinquent first mortgage and the related second mortgage of \$40,000.

Note 5 – Property and Equipment

Property and equipment consist of the following at June 30:

	2019	2018
Furniture and equipment	\$ 89,648	\$ 88,662
Leasehold improvements	83,640	9,013
	<u>173,288</u>	<u>97,675</u>
Less accumulated depreciation	(96,424)	(90,586)
	<u>\$ 76,864</u>	<u>\$ 7,089</u>

Note 6 – Property Held for Development

Property held for development consists of the following at June 30:

	2019	2018
Land	\$ 551,468	\$ 551,468
Buildings	176,351	176,351
Construction in progress	266,645	104,794
	<u>994,464</u>	<u>832,613</u>
Less accumulated depreciation	(29,392)	(29,392)
	<u>\$ 965,072</u>	<u>\$ 803,221</u>

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 7 – Line of Credit

The Agency has a line of credit with a bank which authorizes draws up to \$150,000 and bears interest at the Wall Street Journal prime rate plus 2.25% (7.75% and 7.25% at June 30, 2019 and 2018, respectively). The line of credit is collateralized by the Agency's mortgages receivable and matures June 2020. The balance on the line of credit was \$126,705 and \$40,000 at June 30, 2019 and 2018, respectively.

Note 8 – Notes Payable

In July 2015, the Agency purchased two contiguous parcels of property in Everett, Washington for \$700,000 (the Twin Creeks property). This purchase was financed, in part, by a \$603,000 loan from the Washington State Housing Commission. This loan bears interest at 1% and requires no payments of interest or principal until the loan becomes due in July 2023, and is collateralized by the property. The balance due on this loan, including principal and accrued interest, is \$627,076 and \$620,839 at June 30, 2019 and 2018, respectively.

In June 2015, the Agency obtained a ten-year term loan from Habitat International totaling \$254,700. The loan was used in part to finance of purchase of the Twin Creeks Property and additional construction, as well as for general operating purposes. The loan bears interest at 4.75% and is collateralized by certain mortgages receivable. The loan requires quarterly payments of \$8,036 including principal and interest and matures in June 2025. The balance due on this loan is \$167,032 and \$190,474 at June 30, 2019 and 2018, respectively.

Future principal payments due on these loans are as follows for the years ending June 30:

2020	\$	24,648
2021		25,840
2022		27,090
2023		28,399
2024		656,849
Thereafter		31,282
	<u>\$</u>	<u>794,108</u>

Subsequent to year end, the Agency obtained a short-term loan of \$50,000 bearing 0% interest from a company owned by a Board member. Proceeds were received in July 2019 and repaid in full in September 2019.

Subsequent to year end, the Agency obtained a loan from a bank totaling \$75,000. The loan bears interest of 7.75% and is collateralized by all business assets. The loan requires monthly payments of \$1,310 including principal and interest and matures June 2025.

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 9 – Lease Commitments

The Agency has a noncancelable operating lease for its administrative offices and retail store in Lynnwood, Washington, which expires in August 2021, as well as an operating lease for its retail store in Everett, Washington, which expires in February 2020 and may be terminated by the Agency upon six months' written notice. Subsequent to year end, the Everett lease was extended to February 2025. In addition, in October 2017, the Agency entered into a noncancelable operating lease for a third retail store located in Smokey Point, Washington. The lease term is seven years and provides for a six-month rent abatement at the beginning of the lease. Monthly rent payments will commence six months after the location opens for business. The Smokey Point store opened for business subsequent to year end in August 2019 and rent payments began in December 2019.

Rent expense is recognized on a straight-line basis and a related deferred rent liability is recorded. Rent expense under these leases was \$254,564 and \$225,292 for the years ended June 30, 2019 and 2018, respectively, and is included in occupancy expense.

Future minimum payments under these leases are as follows for the years ending June 30:

2020	\$	347,654
2021		422,191
2022		244,441
2023		213,964
2024		218,822
Thereafter		458,040
		\$ 1,905,112

Note 10 – Retail Store Sales

Retail store sales is shown in the statements of activities net of cost of goods sold. The net sales revenue is as follows for the years ended June 30:

	2019	2018
Gross sales	\$ 757,143	\$ 793,839
Less cost of goods sold	(757,143)	(774,947)
	\$ -	\$ 18,892

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 11 – Related Party Transactions

During the years ended June 30, 2019 and 2018, the Agency made payments to Habitat for Humanity International and its Washington affiliate of \$22,161 and \$14,227, respectively.

During the year ended June 30, 2017, the Agency was awarded a three-year grant from Habitat for Humanity International to support a new Community Outreach Coordinator position. During the years ended June 30, 2019 and 2018, the amounts received on this grant were \$14,227 and \$44,944, respectively.

Substantially all of the mortgages are serviced by a Habitat for Humanity affiliate in Michigan, Affiliate Mortgage Services. This affiliate collects all payments from specified homeowners, including escrow amounts. The net mortgage amount is remitted to the Agency to apply against the outstanding balance of the homeowner's mortgage. During the years ended June 30, 2019 and 2018, the Agency paid servicing fees to the affiliate of \$3,660 and \$3,038, respectively.

As described in Note 8, subsequent to year end, in July 2019 the Agency received a short-term loan of \$50,000 from a company owned by a Board member. The loan was paid off in September 2019.

Note 12 – Management's Plans

As indicated in the accompanying financial statements, the Agency experienced a decrease in net assets without donor restrictions of \$245,557 and \$332,003, and a net decrease in cash and cash equivalents of \$58,397 and \$388,424 during the years ended June 30, 2019 and 2018, respectively. In addition, a significant portion of net assets without donor restrictions at June 30, 2019 and 2018 is attributed to property and equipment and long-term mortgages receivable.

To address this the Agency has completed a Resource Development reorganization, hired new staff and is developing a coordinated resource development plan to increase individual and corporate giving, gifts in kind, grants and sponsorships and includes plans for construction financing. The Resource Development Plan is being matched with construction plans to ensure construction does not outpace financing. An annual grants calendar has been developed with appropriate grants that are being applied for on a regular cycle. Store revenues and profitability were improved with the opening of a third Habitat Store in August 2019. In November 2019, the Agency received a significant stock donation, which was subsequently sold with cash proceeds of \$734,966. Additionally, as discussed in Note 7, the Agency has a line of credit to help manage operating cash needs.

HABITAT FOR HUMANITY OF SNOHOMISH COUNTY
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2019 AND 2018

Note 13 – Subsequent Events

Subsequent events were evaluated through July 7, 2020, which is the date the financial statements were available to be issued.

In December 2019, a novel strain of coronavirus (COVID-19) was reported in Wuhan, China. On March 11, 2020, the World Health Organization declared the outbreak to be a global pandemic. The extent of the impact of COVID-19 on the Agency's operations will depend on certain developments, including the duration and spread of the outbreak and the impact to clients and employees, all of which are uncertain and cannot be determined.

On March 20, 2020, the Agency closed all three Habitat Stores and furloughed all store staff for the safety of Habitat's staff, volunteers and store customers. This decision was then superseded by Washington State's stay-at-home order. The stores reopened on June 10, 2020, as allowed under phase two of the governor's reopening plan. The Agency has cash reserves to survive approximately eight months of closure, not including any revenue received during that time. The Agency also received a \$133,400 Payroll Protection Program loan through the Small Business Administration as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act).