

**HABITAT FOR HUMANITY OF  
NEW CASTLE COUNTY, INC.**

**FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITORS' REPORTS**

**JUNE 30, 2019 AND 2018**

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
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**JUNE 30, 2019 AND 2018**

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BELFINT • LYONS • SHUMAN  
Certified Public Accountants

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*Independent Auditors' Report*

To the Board of Directors  
Habitat for Humanity of New Castle County, Inc.

*Report on Financial Statements*

We have audited the accompanying financial statements of Habitat for Humanity of New Castle County, Inc. (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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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

To the Board of Directors  
Habitat for Humanity of New Castle County, Inc.

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 New Castle County, Inc. 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.

*Belfint, Lyons & Shuman, P.A.*

January 23, 2020

Wilmington, Delaware

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**JUNE 30, 2019 AND 2018**

**ASSETS**

	<b>2019</b>	<b>2018</b>
<b>CURRENT ASSETS</b>		
Cash and Cash Equivalents	\$ 655,434	\$ 1,023,895
Accounts Receivable	7,655	11,734
Pledges and Grants Receivable (Current Portion, Net of Allowance)	-	2,695
Prepaid Expenses	35,429	35,538
Inventory	285,870	202,338
Non-Interest-Bearing Mortgages Receivable (Current Portion)	338,339	317,370
<b>TOTAL CURRENT ASSETS</b>	<b>1,322,727</b>	<b>1,593,570</b>
<b>NON-INTEREST-BEARING MORTGAGES RECEIVABLE</b>		
Non-Interest-Bearing Mortgages Receivable (Net of Current Portion)	6,176,560	5,955,311
Discount on Non-Interest-Bearing Mortgages Receivable	(3,044,698)	(3,031,927)
<b>TOTAL NON-INTEREST-BEARING MORTGAGES RECEIVABLE (NET OF CURRENT PORTION)</b>	<b>3,131,862</b>	<b>2,923,384</b>
<b>PROPERTY AND EQUIPMENT (NET)</b>	<b>853,226</b>	<b>867,298</b>
<b>OTHER ASSETS</b>		
Pledges and Grants Receivable (Net of Current Portion)	-	20,225
Investments in Endowment Fund	918,217	890,812
Construction in Progress, Net of Accrued Subsidies	1,591,531	1,521,104
Security Deposits	22,874	22,874
<b>TOTAL OTHER ASSETS</b>	<b>2,532,622</b>	<b>2,455,015</b>
<b>TOTAL ASSETS</b>	<b>\$ 7,840,437</b>	<b>\$ 7,839,267</b>

**LIABILITIES AND NET ASSETS**

	<u>2019</u>	<u>2018</u>
<b>CURRENT LIABILITIES</b>		
Notes Payable (Current Maturities)	\$ 83,000	\$ 8,624
Accounts Payable	118,426	205,650
Accrued Expenses	42,767	35,633
Deferred Revenue	11,500	6,100
	<u>255,693</u>	<u>256,007</u>
<b>TOTAL CURRENT LIABILITIES</b>	255,693	256,007
<b>OTHER LIABILITIES</b>		
Notes Payable (Net of Current Maturities)	-	83,000
	<u>-</u>	<u>83,000</u>
<b>TOTAL LIABILITIES</b>	<u>255,693</u>	<u>339,007</u>
<b>NET ASSETS</b>		
Without Donor Restrictions	6,561,859	6,216,979
With Donor Restrictions	1,022,885	1,283,281
	<u>7,584,744</u>	<u>7,500,260</u>
<b>TOTAL NET ASSETS</b>	7,584,744	7,500,260
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 7,840,437</u>	<u>\$ 7,839,267</u>

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

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**STATEMENTS OF ACTIVITIES**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>		
	<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
<b>SUPPORT AND REVENUE</b>			
Contributions and Grants	\$ 822,013	\$ 502,122	\$ 1,324,135
Mortgages Received from Home Sales	562,813	-	562,813
Noncash Donations for Resale at ReStore	1,432,096	-	1,432,096
Merchandise and ReStore Revenues	1,431,349	-	1,431,349
Less: Merchandise and Cost of Goods Sold	(1,508,581)	-	(1,508,581)
Event Income	140,115	-	140,115
Less: Event Expenses	(56,022)	-	(56,022)
Other Revenue	23,233	-	23,233
Mortgage Loan Discount Amortization	282,034	-	282,034
Interest Income	1,828	-	1,828
Investment Gain (Net of Fees)	27,405	-	27,405
	<u>3,158,283</u>	<u>502,122</u>	<u>3,660,405</u>
Net Assets Released from Restrictions	762,518	(762,518)	-
	<u>3,920,801</u>	<u>(260,396)</u>	<u>3,660,405</u>
<b>TOTAL SUPPORT AND REVENUE</b>			
<b>EXPENSES</b>			
Program Services (86%, 89%)	3,081,033	-	3,081,033
Supporting Services			
Management and General (4%, 5%)	159,671	-	159,671
Fundraising (9%, 6%)	335,217	-	335,217
	<u>3,575,921</u>	<u>-</u>	<u>3,575,921</u>
<b>TOTAL EXPENSES</b>			
<b>CHANGE IN NET ASSETS</b>	344,880	(260,396)	84,484
<b>NET ASSETS - Beginning of Year</b>	<u>6,216,979</u>	<u>1,283,281</u>	<u>7,500,260</u>
<b>NET ASSETS - End of Year</b>	<u>\$ 6,561,859</u>	<u>\$ 1,022,885</u>	<u>\$ 7,584,744</u>

<b>2018</b>		
<b>Without Donor Restrictions</b>	<b>With Donor Restrictions</b>	<b>Total</b>
\$ 614,809	\$ 1,108,630	\$ 1,723,439
1,241,286	-	1,241,286
1,441,820	-	1,441,820
1,439,401	-	1,439,401
(1,533,288)	-	(1,533,288)
197,269	-	197,269
(123,431)	-	(123,431)
18,748	-	18,748
198,325	-	198,325
2,166	-	2,166
38,852	-	38,852
<u>3,535,957</u>	<u>1,108,630</u>	<u>4,644,587</u>
998,509	(998,509)	-
<u>4,534,466</u>	<u>110,121</u>	<u>4,644,587</u>
3,787,559	-	3,787,559
216,132	-	216,132
<u>267,112</u>	<u>-</u>	<u>267,112</u>
<u>4,270,803</u>	<u>-</u>	<u>4,270,803</u>
263,663	110,121	373,784
<u>5,953,316</u>	<u>1,173,160</u>	<u>7,126,476</u>
<u>\$ 6,216,979</u>	<u>\$ 1,283,281</u>	<u>\$ 7,500,260</u>

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



**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2019**

	<b>Program Services</b>				<b>Supporting Services</b>				<b>Total Expenses</b>
	<b>Construction</b>	<b>Discounts on Mortgage Originations</b>	<b>A Brush with Kindness</b>	<b>ReStore</b>	<b>Total Program Services</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total Supporting Services</b>	
Salary and Related Costs	\$ 504,770	\$ -	\$ 48,980	\$ 522,388	\$ 1,076,138	\$ 286,221	\$ 33,970	\$ 320,191	\$ 1,396,329
Construction Administration	54,659	-	-	-	54,659	-	23,184	23,184	77,843
Advertising	-	-	-	36,257	36,257	-	-	-	36,257
Bad Debt Expense	-	-	-	-	-	-	18,170	18,170	18,170
Building Materials and Supplies	856,593	-	-	-	856,593	-	-	-	856,593
Depreciation	15,779	-	-	31,951	47,730	-	15,184	15,184	62,914
Fundraising Supplies	-	-	-	-	-	45,896	-	45,896	45,896
HFHI Franchise Fee	-	-	-	-	-	-	15,015	15,015	15,015
Loan Servicing Fees	-	-	-	-	-	-	5,825	5,825	5,825
Merchandise and Cost of Goods Sold	-	-	-	1,508,581	1,508,581	-	-	-	1,508,581
A Brush with Kindness Assistance Provided	-	-	67,810	-	67,810	-	-	-	67,810
Mortgage Discounts	-	294,805	-	-	294,805	-	-	-	294,805
Occupancy	-	-	-	436,663	436,663	-	6,918	6,918	443,581
Professional Services	-	-	-	-	-	3,100	41,405	44,505	44,505
ReStore Supplies	-	-	-	102,597	102,597	-	-	-	102,597
Special Events Expense	-	-	-	-	-	56,022	-	56,022	56,022
Telephone	10,813	-	-	-	10,813	-	-	-	10,813
Tithe to Habitat International	51,618	-	-	27,582	79,200	-	-	-	79,200
Training	17,768	-	-	-	17,768	-	-	-	17,768
	<u>1,512,000</u>	<u>294,805</u>	<u>116,790</u>	<u>2,666,019</u>	<u>4,589,614</u>	<u>391,239</u>	<u>159,671</u>	<u>550,910</u>	<u>5,140,524</u>
Less: Merchandise and Cost of Goods Sold	-	-	-	(1,508,581)	(1,508,581)	-	-	-	(1,508,581)
Less: Event Expenses Offsetting Revenue	-	-	-	-	-	(56,022)	-	(56,022)	(56,022)
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>\$ 1,512,000</u>	<u>\$ 294,805</u>	<u>\$ 116,790</u>	<u>\$ 1,157,438</u>	<u>\$ 3,081,033</u>	<u>\$ 335,217</u>	<u>\$ 159,671</u>	<u>\$ 494,888</u>	<u>\$ 3,575,921</u>

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

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2018**

	Program Services				Supporting Services				Total Expenses
	Construction	Discounts on Mortgage Originations	A Brush with Kindness	ReStore	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salary and Related Costs	\$ 444,441	\$ -	\$ 12,039	\$ 464,873	\$ 921,353	\$ 230,183	\$ 42,961	\$ 273,144	\$ 1,194,497
Construction Administration	57,892	-	-	-	57,892	-	23,351	23,351	81,243
Advertising	-	-	-	59,010	59,010	-	-	-	59,010
Bad Debt Expense	-	-	-	-	-	-	15,730	15,730	15,730
Building Materials and Supplies	1,465,773	-	-	-	1,465,773	-	-	-	1,465,773
Depreciation	10,891	-	-	30,491	41,382	-	13,348	13,348	54,730
Fundraising Supplies	-	-	-	-	-	36,929	-	36,929	36,929
HFHI Franchise Fee	-	-	-	-	-	-	15,000	15,000	15,000
Loan Servicing Fees	-	-	-	-	-	-	4,966	4,966	4,966
Merchandise and Cost of Goods Sold	-	-	-	1,533,288	1,533,288	-	-	-	1,533,288
A Brush with Kindness Assistance Provided	-	-	16,059	-	16,059	-	-	-	16,059
Mortgage Discounts	-	607,207	-	-	607,207	-	-	-	607,207
Occupancy	-	-	-	425,139	425,139	-	6,380	6,380	431,519
Professional Services	-	-	-	-	-	-	94,396	94,396	94,396
ReStore Supplies	-	-	-	82,984	82,984	-	-	-	82,984
Special Events Expense	-	-	-	-	-	123,431	-	123,431	123,431
Telephone	8,733	-	-	-	8,733	-	-	-	8,733
Tithe to Habitat International	46,884	-	-	36,918	83,802	-	-	-	83,802
Training	18,225	-	-	-	18,225	-	-	-	18,225
	2,052,839	607,207	28,098	2,632,703	5,320,847	390,543	216,132	606,675	5,927,522
Less: Merchandise and Cost of Goods Sold	-	-	-	(1,533,288)	(1,533,288)	-	-	-	(1,533,288)
Less: Event Expenses Offsetting Revenue	-	-	-	-	-	(123,431)	-	(123,431)	(123,431)
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 2,052,839</b>	<b>\$ 607,207</b>	<b>\$ 28,098</b>	<b>\$ 1,099,415</b>	<b>\$ 3,787,559</b>	<b>\$ 267,112</b>	<b>\$ 216,132</b>	<b>\$ 483,244</b>	<b>\$ 4,270,803</b>

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

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**STATEMENTS OF CASH FLOWS**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

	<b>2019</b>	<b>2018</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in Net Assets	\$ 84,484	\$ 373,784
Adjustments to Reconcile Change in Net Assets to Net Cash from Operating Activities		
Bad Debt Expense	18,170	15,730
Depreciation Expense	62,914	54,730
Investment Gain	(27,405)	(38,852)
Net Mortgage Discounts Issued	294,805	607,207
Mortgage Loan Discount Amortization	(282,034)	(198,325)
Mortgages Received from Home Sales	(562,813)	(1,241,286)
Notes Payable Converted to Grant Revenue	-	(88,823)
Changes in Assets and Liabilities		
Mortgages Receivable (including Changes in Discount from Exchanges)	272,586	275,865
Accounts Receivable	4,079	4,211
Pledges and Grants Receivable	4,750	6,325
Prepaid Expenses	109	12,437
Inventories	(83,532)	(14,143)
Construction in Progress, Net of Accrued Subsidies	(22,418)	365,474
Accounts Payable	(87,224)	78,141
Accrued Expenses	7,134	4,320
Deferred Revenue	5,400	6,100
	<b>(310,995)</b>	<b>222,895</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of Property and Equipment	(48,842)	(15,767)
Deposits to Investments in Endowment Fund	-	(80,152)
	<b>(48,842)</b>	<b>(95,919)</b>

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

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**STATEMENTS OF CASH FLOWS - CONTINUED**  
**YEARS ENDED JUNE 30, 2019 AND 2018**

	<u>2019</u>	<u>2018</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of Notes Payable	\$ (8,624)	\$ (13,272)
<b>NET CHANGE IN CASH AND CASH EQUIVALENTS</b>	(368,461)	113,704
<b>CASH AND CASH EQUIVALENTS - Beginning of Year</b>	<u>1,023,895</u>	<u>910,191</u>
<b>CASH AND CASH EQUIVALENTS - End of Year</b>	<u>\$ 655,434</u>	<u>\$ 1,023,895</u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Noncash Investing and Financing Activities		
Reduction in Notes Payable from Notes Payable Converted to Grant Revenue	<u>\$ -</u>	<u>\$ 88,823</u>
Increase in Construction in Process (Decrease in Mortgages Receivable) from Home Foreclosures	<u>\$ 48,009</u>	<u>\$ 202,840</u>

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

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2019**

**NOTE 1: NATURE OF ACTIVITIES**

Habitat for Humanity of New Castle County, Inc., a nonprofit organization (Organization), was incorporated in 1986. The Organization is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational, Christian, nonprofit organization whose purpose is to build homes, community, and hope through creating and sustaining decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists 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 provides its “A Brush with Kindness” (ABWK) program. ABWK is a nationwide effort to serve low-income homeowners who struggle to maintain of their homes. The focus is on helping homes stay safe, warm, and dry. Given the nature of the repairs, most of the work is performed by subcontract.

The Organization operates two ReStores, with locations in Wilmington and Middletown, Delaware. These ReStores are retail outlets where quality used and surplus building materials, furniture, and appliances are sold at a fraction of normal prices. The materials sold by the ReStores are usually donated from building supply stores, contractors, demolition crews or from individuals who wish to show their support for the Organization. In addition to raising funds, the ReStores help the environment by rechanneling good, usable materials into use. The proceeds from the ReStores help the Organization fund the construction of houses within the community. The ReStores are a department of the Organization and not a separate legal entity.

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

***Basis of Accounting*** - The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

***Financial Statement Reporting*** - The financial statement presentation follows the recommendations of the Financial Accounting Standards Board’s Accounting Standards Codification (FASB ASC) No. 958, *Not-for-Profit Entities*. Under ASC 958, net assets, revenues, gains, and losses are classified based on the existence or absence of donor- or grantor-imposed restrictions. The Organization is required to 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, although their use may be limited by other factors, such as by contract or board designation. The governing board may designate, from net assets without donor restrictions, net assets for an operating reserve and board-designated endowment.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Financial Statement Reporting - Continued***

*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 may be perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

***Revenue Recognition*** - Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor- or grantor-imposed restrictions that are not fulfilled in the accounting period. Expenses are reported as decreases in net assets without donor restrictions. 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 stipulations or by law. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as net assets with donor restrictions, and a reclassification to net assets without donor restrictions is made to reflect the expiration of such restrictions.

Promises to give that are scheduled to be received after the end of the reporting period are shown as increases in net assets with donor restrictions and are reclassified to net assets without donor restrictions when the purpose or time restriction is met. Promises to give subject to donor- or grantor-imposed stipulations that the corpus be maintained permanently are recognized as increases in net assets with donor restrictions.

***Use of Estimates*** - The preparation of financial statements in conformity with accounting principles generally accepted 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*** - The Organization considers all highly liquid investments with a maturity of three months or less to be cash equivalents. Cash and cash equivalents are maintained at financial institutions and, at times, balances may exceed federally insured limits. The Organization has never experienced any losses related to these balances. Deposit balances in excess of federally insured limits as of June 30, 2019 and 2018 were \$193,564 and \$569,866, respectively.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Accounts Receivable* - Accounts receivable are carried at cost. The Organization does not accrue finance or interest charges. On a periodic basis, management evaluates its accounts receivable based on the history of past write-offs and collections. An account is written off when it is determined that all collection efforts have been exhausted.

The Organization has not recognized an allowance for doubtful accounts receivable since experience and management's estimation indicate an allowance for such amounts is immaterial.

*Pledges and Grants Receivable* - Unconditional pledges receivable are recognized as revenues or gains in the period received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Based on management's assessment, the Organization provides for estimated uncollectible amounts through a charge to expense and a credit to a valuation allowance. Balances that remain outstanding after the Organization has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to pledges and grants receivable.

*Fair Value of Financial Instruments* - FASB ASC 820, *Fair Value Measurement*, provides the framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets and liabilities (level 1) and the lowest priority to unobservable inputs (level 3). The carrying amounts for cash and cash equivalents, receivables, prepaid expenses, payables, accrued expenses, and deferred revenue approximate their fair value because of their short-term maturity. The carrying value amount of long-term debt approximates its fair value since the Organization's interest rates approximate current interest rates.

The three levels of the fair value hierarchy under FASB ASC 820 are described as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Fair Value of Financial Instruments - Continued*

Level 2 - Continued - If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Pursuant to the accounting guidance for fair value measurements and its subsequent updates, fair value is defined as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurement for assets and liabilities required or permitted to be recorded at fair value, the Organization considers the principal or most advantageous market in which it would transact, and it considers assumptions that market participants would use when pricing the asset or liability.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used as of June 30, 2019 and 2018.

Endowment Fund, Pooled Separate Accounts - Valued at the net asset value (NAV) of units held by the Organization at year end based on the market value of its underlying investments. Although the pooled separate accounts are not available in an active market, the NAV of the units are approximated based on the quoted prices of the underlying investments that are traded in an active market.

The following tables set forth by level, within the fair value hierarchy, the Organization's assets at fair value as of June 30:

	2019			
	Level 1	Level 2	Level 3	Total
Investment in Pooled Separate Accounts	\$ -	\$ 918,217	\$ -	\$ 918,217
	\$ -	\$ 918,217	\$ -	\$ 918,217



**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Fair Value of Financial Instruments - Continued*

	2018			
	Level 1	Level 2	Level 3	Total
Investment in Pooled Separate Accounts	\$ -	\$ 890,812	\$ -	\$ 890,812
	\$ -	\$ 890,812	\$ -	\$ 890,812

**Inventories** - Inventories are valued at the lower of cost or market, with cost determined by the first-in, first-out method.

**Mortgages Receivable** - Mortgages receivable consist of non-interest-bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as mortgage loan discount amortization income over the term of the mortgage.

**Allowance for Mortgage Receivable Losses** - The Organization uses established underwriting criteria to ensure that only families who meet the Organization's financial and credit criteria are approved to be partner families and receive a non-interest-bearing mortgage loan from the Organization. This includes, but is not limited to, a thorough review of each prospective homeowner's credit report, sources of income, and financial history.

The Organization regularly reviews its portfolio of mortgage notes receivable and monitors the accounts for delinquencies. Homeowners whose mortgages are more than 30 days past due are considered to be in an early stage of default. During the period of delinquency, the Organization contacts the homeowner using collection efforts and establishes a payment plan with the homeowner, if necessary. Homeowners whose mortgages are more than 90 days past due, who have not made satisfactory payment arrangements or reached a deed in lieu of foreclosure agreement, are subject to foreclosure proceedings.

Non-interest-bearing mortgages originated are discounted at the time of sale based on historical experience from the Organization's portfolio mortgages and upon prevailing market rates. This results in the net mortgage receivable balances being less than the home's fair market value. Therefore, the Organization believes that losses resulting from nonpayment of mortgage notes receivable, given its collateral value, are not likely. Accordingly, the Organization has not recorded an allowance for mortgage notes receivable losses.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Intangible Assets*** - Intangible assets consist of loan origination fees incurred in connection with obtaining long-term financing. Debt issuance costs are presented as a reduction of the carrying amount of the debt. Amortization of the loan origination fees is calculated using the straight-line method over the term of the related financing agreement and is reported as interest expense.

***Property and Equipment*** - Property and equipment acquired by the Organization are considered owned by the Organization and are valued at cost. Donated property and equipment acquired by the Organization are considered owned by the Organization and are valued at fair value at the time of the donation. Depreciation is provided on the straight-line method. Maintenance and minor repairs are charged to operations when incurred. When assets are retired or sold, the related costs and accumulated depreciation are removed from the accounts and the resulting gain or loss is reflected in current operations.

The estimated useful lives for depreciation are:

Automobiles	5 Years
Buildings and Improvements	7 - 39 Years
Equipment, Furniture, and Software	3 - 7 Years

***Long-Lived Assets*** - As required by FASB ASC 360, *Property, Plant, and Equipment*, long-lived assets are required to be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. When required, impairment losses on assets to be held and used are recognized based on the fair value of the asset. Long-lived assets to be disposed of are reported at the lower of the carrying amount or fair value less the cost to sell. There was no impairment loss as of June 30, 2019 and 2018.

***Construction in Progress*** - Construction in progress is carried at cost less accrued subsidies. Cost includes initial acquisition and all subsequent costs to develop the property. It is not the Organization's intent to earn a profit selling developed property. Generally, sales are at a loss. The Organization considers losses incurred to be a subsidy to the respective buyer. However, in accordance with accounting principles generally accepted in the United States of America, the Organization records a provision of estimated losses on construction in progress in the period such losses are determined. These estimated losses are recorded on the statements of financial position as accrued subsidies included in the cost of construction incurred. As of June 30, 2019 and 2018, accrued subsidies on construction in progress were \$1,578,080 and \$1,699,508, respectively.

***Donated Services*** - The Organization receives a significant amount of donated services from unpaid volunteers who assist in program services and support services. No amounts have been recognized in the statements of activities because the criteria for recognition under accounting principles generally accepted in the United States of America have not been satisfied.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

***Donated Inventory*** - The Organization received noncash contributions from donors in the amount of \$1,432,096 and \$1,441,820 for the years ended June 30, 2019 and 2018, respectively. These noncash items were provided to the ReStore for resale to support the Organization's mission.

***Home Sales*** - Transfers to homeowners are financed by the Organization. Home sales are recorded when title is transferred at the gross mortgage amount plus down payment received, if any. Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as mortgage loan discount amortization income over the term of the mortgage.

***Home Construction Costs*** - Costs incurred in conjunction with home construction are capitalized as construction in progress. Capitalized construction costs are expensed when ownership transfers to the homeowners. Post-settlement costs are expensed as incurred.

***Functional Allocation of Expenses*** - The costs of providing programs and other activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Certain costs have been allocated among the programs and supporting services benefited.

Salaries and related expenses are allocated based on job descriptions and the best estimates of management. Expenses, other than salaries and related expenses which are not directly identifiable by program or support service, are allocated based on the best estimates of management. Expenses that are not directly identifiable by program or support service that are allocated based on personnel time spent on the activity include certain professional fees, supplies, and occupancy costs including maintenance and utilities. Depreciation expenses are allocated based on personnel costs specifically related to the utilization of property and equipment assets.

***Income Taxes*** - The Organization is exempt from federal income tax under Internal Revenue Code Section 501(c)(3). However, a Form 990, Return of Organization Exempt from Income Taxes, is required to be filed each year. The Organization complies with other Internal Revenue Service reporting requirements regarding contributions received and payments to independent contractors.

The Organization recognizes tax benefits only to the extent that the Organization believes it is “more likely than not” that its tax positions will be sustained upon taxing authorities' examination.

The federal informational returns of the Organization for the years ended June 30, 2016, 2017, and 2018 are subject to examination by the tax authorities, generally for three years after they were filed.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED**

*Subsequent Events* - The Organization's policy is to evaluate events and transactions subsequent to its year end for potential recognition in the financial statements or disclosure in the notes to the financial statements. Management has evaluated events and transactions through the date of the independent auditors' report, which is the date the financial statements were available to be issued.

*Reclassifications* - Certain reclassifications of amounts previously reported have been made to the accompanying financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported total net assets or changes in net assets.

*Change in Accounting Principle* - On August 18, 2016, the Financial Accounting Standards Board issued Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*. The update 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 has implemented ASU 2016-14 and has adjusted the presentation in these financial statements accordingly. The ASU has been applied retrospectively. ASU 2016-14 requires a change in the previously reported net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets are now reported as net assets with donor restrictions. A summary of the change in net asset classifications resulting from the adoption of ASU 2016-14 is presented in Note 18.

**NOTE 3: AVAILABILITY AND LIQUIDITY**

The Organization strives to maintain liquid financial assets sufficient to cover 30 days of general expenses. The Organization regularly monitors the liquidity required to meet its operating needs and other contractual commitments. The Organization has a few sources of liquidity at its disposal, including cash and cash equivalents and a line of credit (Note 10).

For purposes of analyzing resources available to meet general expenses over a 12-month period, the Organization considers all expenses related to its ongoing program and support activities to be general expenses. If assets are not available to meet current operating needs, then they are not included in our analysis below. Inventory and properties available for resale are not included in our analysis because they require the Organization to sell the assets.

In addition to financial assets available to meet general expenses over the next 12 months, the Organization operates within its budget and anticipates collecting sufficient funding to cover general expenses not covered by donor-restricted resources.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 3: AVAILABILITY AND LIQUIDITY - CONTINUED**

The following reflects the Organization's financial assets as of the date of the statement of financial position, reduced by amounts not available for general use because of contractual, board designation, or donor-imposed restrictions within one year of the statement of financial position date.

Financial Assets as of June 30, 2019	
Cash and Cash Equivalents	\$ 655,434
Accounts Receivable, Net	7,655
Non-Interest-Bearing Mortgages Receivable, Net	3,470,201
Investments in Endowment Fund	<u>918,217</u>
Financial Assets as of June 30, 2019	5,051,507
Less Amounts Not Available to be Used Within a Year	
Net Assets with Donor Restrictions to be Used for Specific Purposes	722,885
Endowment Investments in Excess of Cumulative Amount Available per Spending Policy	878,484
Non-Interest-Bearing Mortgages Receivable (Net of Current Portion)	<u>3,131,862</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$ 318,276</u></u>

Funds held in the Organization's endowment are subject to contractual spending policies of the Delaware Community Foundation. The amount available for distribution as of June 30, 2019 was \$39,733 and is presented as available to meet cash needs for general expenditures in the preceding chart.

**NOTE 4: NET ASSETS WITH DONOR RESTRICTIONS**

Net assets with donor restrictions consisted of the following as of June 30:

	<u>2019</u>	<u>2018</u>
Subject to Expenditure for Specified Purpose		
Construction of Homes	\$ 631,303	\$ 983,281
A Brush with Kindness	<u>91,582</u>	<u>-</u>
Total Subject to Expenditure for Specified Purpose	722,885	983,281
Subject to Endowment Spending Policy and Appropriations		
Corpus of Endowed Funds	<u>300,000</u>	<u>300,000</u>
Total Net Assets with Donor Restrictions	<u><u>\$ 1,022,885</u></u>	<u><u>\$ 1,283,281</u></u>

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 5: NET ASSETS RELEASED FROM DONOR RESTRICTIONS**

Net assets released from donor restrictions by incurred expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Purpose Restrictions Accomplished		
Construction of Homes	\$ 645,728	\$ 976,010
A Brush With Kindness	<u>116,790</u>	<u>22,499</u>
Total Releases from Restrictions	<u>\$ 762,518</u>	<u>\$ 998,509</u>

**NOTE 6: PLEDGES AND GRANTS RECEIVABLE**

As of June 30, 2019 and 2018, unconditional promises to give for the construction of homes were \$0 and \$28,650, respectively. The balances in the allowance for uncollectible pledges and grants receivable as of June 30, 2019 and 2018 were \$0 and \$5,730, respectively. The Organization considers the discount to net present value to be immaterial as of June 30, 2019 and 2018, and therefore, a provision for the present value discount has not been made.

Pledges and grants receivable consisted of the following unconditional promises to give as of June 30:

	<u>2019</u>	<u>2018</u>
Amounts Due in		
Less than One Year	\$ -	\$ 8,425
One to Five Years	<u>-</u>	<u>20,225</u>
Gross Pledges and Grants Receivable	-	28,650
Less: Allowance for Uncollectible Pledges and Grants Receivable	<u>-</u>	<u>(5,730)</u>
Pledges and Grants Receivable (Net) - June 30	<u>\$ -</u>	<u>\$ 22,920</u>

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 7: MORTGAGES RECEIVABLE**

Mortgages from home sales represent the sale of houses built by the Organization in exchange for mortgage notes with no interest. These mortgages are payable over 20 to 30 years and discounted for the present time value of money. The held mortgages receivable are discounted in order to reflect their economic value. The interest rates used to determine the discount range from 7.55% to 9.00%. As of June 30, 2019 and 2018, the Organization had 68 and 65 loans outstanding, respectively.

The following are annual maturities to be received for the years ending June 30:

	2019	2018
Past Due	\$ 286,645	\$ 274,849
2020	338,339	317,370
2021	324,148	303,299
2022	324,148	303,299
2023	324,148	303,299
2024	321,274	303,299
Thereafter	4,596,197	4,467,266
	6,514,899	6,272,681
Less: Unamortized Discount	(3,044,698)	(3,031,927)
Non-Interest-Bearing Mortgages Receivable (Net of Discount)	\$ 3,470,201	\$ 3,240,754

To account for uncertainty in the timing of cash collections, management has excluded from current assets in the statements of financial position amounts reflected as past due mortgages.

The following table shows an aging analysis of mortgages receivable by past due status:

2019			
Current	30-89 Days Past Due	90 Days of More Past Due	Total
\$ 6,228,254	\$ 21,622	\$ 265,023	\$ 6,514,899
2018			
Current	30-89 Days Past Due	90 Days of More Past Due	Total
\$ 5,997,832	\$ 20,590	\$ 254,259	\$ 6,272,681

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 8: PROPERTY AND EQUIPMENT**

Property and equipment as of June 30 were as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 152,523	\$ 152,523
Automobiles	98,953	98,953
Building and Improvements	1,163,900	1,127,782
Equipment, Furniture, and Software	<u>151,546</u>	<u>138,822</u>
	1,566,922	1,518,080
Less: Accumulated Depreciation	<u>713,696</u>	<u>650,782</u>
Net Property and Equipment	<u>\$ 853,226</u>	<u>\$ 867,298</u>

**NOTE 9: ENDOWMENT FUND**

The endowment fund consists of pooled investments managed by the Delaware Community Foundation (DCF). The Organization is the primary income beneficiary. DCF reserves the right to make the final decision regarding distributions to the Organization. Endowment fund activity consisted of the following for the years ended June 30:

	<u>2019</u>	<u>2018</u>
Beginning Balance - July 1	\$ 890,812	\$ 771,808
Contributions	-	80,152
Investment Income	<u>27,405</u>	<u>38,852</u>
Ending Balance - June 30	<u>\$ 918,217</u>	<u>\$ 890,812</u>

The Organization does not believe that investments within the DCF endowment fund are within the scope of the FASB ASC, *Not-for-Profit Organizations*, in regard to required disclosures for endowments, because in contrast to donor-restricted endowment funds, no ongoing decisions about the investment or distributions from the fund are within the authority of the Organization.

The endowment includes net assets with donor restrictions in the amount of \$300,000 as of June 30, 2019 and 2018, the income from which is not donor-restricted. Amounts are appropriated for expenditure annually; however, in lieu of distributing the donor restricted income for operations, management retains the income to maintain the purchasing power of the fund. As a result, to reflect the appropriation, investment income is reported as increases in net assets without donor restrictions in the statements of activities.



**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 9: ENDOWMENT FUND - CONTINUED**

Endowment fund income consisted of the following for the years ended June 30:

	2019	2018
Realized and Unrealized Gain	\$ 22,080	\$ 37,363
Income Earned	16,881	11,818
Administrative and Investment Fees	(11,556)	(10,329)
Investment Income, Net of Fees	\$ 27,405	\$ 38,852

**NOTE 10: NOTE PAYABLE - DEMAND**

The Organization has a revolving line of credit with a local financial institution in the amount of \$300,000. Principal is payable on demand with interest paid monthly at the bank's prime rate (5.5% as of June 30, 2019) less 1% annually on all outstanding balances. The line of credit is considered due on demand; therefore, renewal documentation is not required each year unless changes are made to the original agreement. The line of credit is collateralized by a security interest in the assets of the Organization. No amounts were outstanding on the line of credit as of June 30, 2019 and 2018.

**NOTE 11: NOTES PAYABLE**

Notes payable as of June 30 were as follows:

	2019	2018
<i>City of Wilmington, Delaware</i> - Forgivable loan with interest payable at 5.0%. Note requires payments of interest only. Upon sale of a home to a qualified buyer, the obligation reverts to grant revenue. The note payable is collateralized by the real estate.	\$ 21,000	\$ 21,000
<i>City of Wilmington, Delaware</i> - Forgivable loan with interest payable at 5.0%. Note requires payments of interest only. Upon sale of a home to a qualified buyer, the obligation reverts to grant revenue. The note payable is collateralized by the real estate.	56,000	56,000
<i>City of Wilmington, Delaware</i> - Forgivable loan with interest payable at 5.0%. Note requires payments of interest only. Upon sale of a home to a qualified buyer, the obligation reverts to grant revenue. The note payable is collateralized by the real estate.	6,000	6,000

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 11: NOTES PAYABLE - CONTINUED**

	2019	2018
<i>Habitat for Humanity International, Inc.</i> - Interest-free note payable, payable in monthly installments of \$661 starting July 2015 through May 2019 with a balloon payment of \$678 due June 2019. The note payable is collateralized by mortgages receivable and assets of the Organization.	\$ -	\$ 8,624
Total Notes Payable	83,000	91,624
Less: Current Portion	83,000	8,624
Total Notes Payable, Net of Current Portion	\$ -	\$ 83,000

As indicated in the preceding chart, in June 2013, the City of Wilmington provided properties in exchange for three loans payable by the Organization totaling \$83,000. The loans were to be used to acquire and renovate specific properties to provide affordable housing. The terms of the agreements converted the notes to grants if the Organization sold the properties for affordable housing during the contract period. As of June 30, 2019 and 2018, the Organization had not transferred the properties via affordable housing home sales and the contract periods had expired.

The City of Wilmington has indicated an intent to revise the mortgages to bring the Organization in compliance with the terms of the agreement and provide a timeline that meets the needs of the Organization. Until a revised contract is executed to cure the contract default, the balances have been presented as current liabilities in the statements of financial position.

Loan origination fees were originally capitalized at \$109,552. Accumulated amortization as of June 30, 2019 and 2018 was \$109,552. There was no amortization expense related to the loan origination fees for the years ended June 30, 2018 and 2019.

**NOTE 12: LEASE COMMITMENTS**

The Organization leases various facilities and a copier under noncancelable operating leases which expire in various years through November 30, 2025. Rent expense on the facilities and copier was \$319,978 and \$8,257, respectively, for the year ended June 30, 2019 and \$276,856 and \$3,659, respectively, for the year ended June 30, 2018.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 12: LEASE COMMITMENTS - CONTINUED**

The following are the future minimum lease payments required by these leases for the years ending June 30:

	<u>Facilities</u>	<u>Copiers</u>	<u>Total</u>
2020	\$ 324,875	\$ 3,504	\$ 328,379
2021	195,770	3,504	199,274
2022	169,950	3,504	173,454
2023	177,482	584	178,066
2024	182,862	-	182,862
Thereafter	<u>259,056</u>	<u>-</u>	<u>259,056</u>
Total Minimum Lease Payments	<u>\$ 1,309,995</u>	<u>\$ 11,096</u>	<u>\$ 1,321,091</u>

**NOTE 13: COMMITMENTS AND CONTINGENCIES**

***Mortgage Loan Repurchase Commitment*** - The Organization is required to repurchase any mortgage loan that it had previously sold that becomes 120 days past due. The Organization is notified regularly of delinquent mortgages that are at risk of repurchase. During the years ended June 30, 2019 and 2018, the Organization was not required to repurchase delinquent mortgages receivable.

***Loss Contingencies*** - As of June 30, 2019, The Organization was a defendant in a property damage claim that resulted from a fire that originated at a property owned by the Organization. The ultimate outcome of the litigation cannot presently be determined. Accordingly, adjustments, if any, that might result from the resolution of this matter have not been reflected in the financial statements. Should the Organization experience an adverse outcome in this case, they may be responsible to pay any amount that exceeds insurance coverage. However, the Organization does not anticipate the outcome to exceed insurance coverage.

**NOTE 14: RELATED-PARTY TRANSACTIONS**

The Organization is an affiliate of Habitat for Humanity International, Inc. (HFHI). Affiliate fees paid to HFHI were \$15,015 and 15,000 for the years ended June 30, 2019 and 2018, respectively.

HFHI has a suggested 10% tithing based on internal calculations for unrestricted funds; however, there is no penalty for tithing less than this amount. This amount is used for HFHI's worldwide housing programs. For the years ended June 30, 2019 and 2018, contributions to HFHI amounted to \$79,200 and \$83,802, respectively.

As described in Note 11, the Organization had a note payable to HFHI. As of June 30, 2019 and 2018, the principal balance due amounted to \$0 and \$8,624, respectively.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 15: HOME CONSTRUCTION COSTS**

Following is a summary of home building activity:

	Years Ended June 30	
	2019	2018
Construction in Process (Net of Accrued Subsidies) - Beginning	\$ 1,521,104	\$ 1,683,738
Cost of Homes Transferred	(687,865)	(1,386,284)
Capitalized Home Development Costs	588,855	1,125,604
Homes Reacquired through Foreclosure	48,009	202,840
Change in Accrued Subsidies on Homes Under Construction	121,428	(104,794)
Construction in Process (Net of Accrued Subsidies) - Ending	\$ 1,591,531	\$ 1,521,104
Homes Under Construction - Beginning	11	13
Homes Transferred to Homeowners	(4)	(8)
Homes Rented	-	(2)
New Homes Entering Development Stage	4	8
Homes Under Construction - Ending	11	11

**NOTE 16: RETIREMENT PLAN**

The Organization sponsors a 401(k) plan. Full-time employees with 30 days of service are eligible to participate in the plan. Matching contributions are made on a discretionary basis as approved by the Organization's board of directors. For the years ended June 30, 2019 and 2018, matching contributions of \$8,948 and \$13,214, respectively, were determined based on 2% eligible compensation.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 17: RESTORE**

Selected operating information for the Organization’s ReStore program is as follows:

	Years Ended June 30	
	2019	2018
Noncash Donations for Resale at ReStore	\$ 1,432,096	\$ 1,441,820
Merchandise and ReStore Revenues	1,431,349	1,439,401
Less: Merchandise and Cost of Goods Sold	(1,508,581)	(1,533,288)
	1,354,864	1,347,933
Other ReStore Expenses	(1,157,438)	(1,099,415)
Net ReStore Activity	\$ 197,426	\$ 248,518

**NOTE 18: ADJUSTMENTS TO PRIOR PERIOD FINANCIAL STATEMENTS**

As discussed in Note 2 to the financial statements, the Organization adopted the Financial Accounting Standards Board’s Accounting Standards Update (ASU) 2016-14, *Not-for-Profit Entities* (Topic 958), *Presentation of Financial Statements of Not-for-Profit Entities*, as of and for the year ended June 30, 2018. The requirements of this new accounting pronouncement have been applied retrospectively to all periods presented.

Management determined that mortgages receivable was overstated and construction in progress was understated as of June 30, 2018. The Organization’s mortgage portfolio is serviced by a third-party service provider. At the time of a mortgage default, the Organization recognizes the reacquired property at the outstanding value of the mortgage receivable. The service provider removes the loan from reports provided to the Organization, and the Organization utilizes those reports for accounting reconciliations. The need for restatement is a result of timing differences for reporting properties reacquired from defaulted mortgages. The third-party experienced a timing delay in accounting for and reporting to the Organization the foreclosure activity. There is no effect on changes in net assets or total net assets from this reclassification.

**HABITAT FOR HUMANITY OF NEW CASTLE COUNTY, INC.**  
**NOTES TO FINANCIAL STATEMENTS - CONTINUED**  
**JUNE 30, 2019**

**NOTE 18: ADJUSTMENTS TO PRIOR PERIOD FINANCIAL STATEMENTS - CONTINUED**

The effect of the above-referenced implementation of the new accounting pronouncement and reclassification of defaulted mortgages on the 2018 financial statements is as follows:

	As Previously Reported	Effect of New Accounting Pronouncement	Reclassification of Defaulted Mortgages	As Restated
<u>As of June 30, 2018</u>				
Non-Interest-Bearing Mortgages Receivable (Current Portion)	\$ 315,853	\$ -	\$ 1,517	\$ 317,370
Non-Interest-Bearing Mortgages Receivable (Net of Current Portion)	6,159,668	-	(204,357)	5,955,311
Construction in Progress, Net of Accrued Subsidies	1,318,264	-	202,840	1,521,104
Net Assets - Unrestricted	6,216,979	(6,216,979)	-	-
Net Assets - Temporarily Restricted	983,281	(983,281)	-	-
Net Assets - Permanently Restricted	300,000	(300,000)	-	-
Net Assets - Without Donor Restrictions	-	6,216,979	-	6,216,979
Net Assets - With Donor Restrictions	-	1,283,281	-	1,283,281
Total Net Assets - End of Year	15,294,045	-	-	15,294,045
<u>As of June 30, 2017</u>				
Net Assets - Unrestricted	\$ 5,953,316	\$ (5,953,316)	\$ -	\$ -
Net Assets - Temporarily Restricted	873,160	(873,160)	-	-
Net Assets - Permanently Restricted	300,000	(300,000)	-	-
Net Assets - Without Donor Restrictions	-	5,953,316	-	5,953,316
Net Assets - With Donor Restrictions	-	1,173,160	-	1,173,160
Total Net Assets - Beginning of Year	7,126,476	-	-	7,126,476