

**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
AND
INDEPENDENT AUDITOR'S REPORT
YEARS ENDED JUNE 30, 2019 AND 2018**

**RUTHERFORD COUNTY AREA
HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
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YEARS ENDED JUNE 30, 2019 AND 2018**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Rutherford County Area Habitat for Humanity, Inc.

I have audited the accompanying financial statements of Rutherford County Area Habitat for Humanity, 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.

Auditor's Responsibility

My responsibility is to express an opinion on these financial statements based on my audits. I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

INDEPENDENT AUDITOR'S REPORT (CONTINUED)

Opinion

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rutherford County Area Habitat for Humanity, 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 conformity with accounting principles generally accepted in the United States of America.

Tim Montgomery, CPA PLLC

October 25, 2019
Murfreesboro, Tennessee

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

	2019	2018
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 554,857	\$ 810,245
Restricted cash and cash equivalents	1,420,558	-
Accounts receivable	25,716	7,556
Pledges receivable	-	96,000
Warehouse inventory	13,452	18,045
Current portion of mortgages	240,393	233,950
Construction in process/lots held	862,793	813,539
Total current assets	<u>3,117,769</u>	<u>1,979,335</u>
Property and equipment, net	<u>895,466</u>	<u>947,101</u>
OTHER ASSETS		
Mortgages receivable - long-term portion	1,750,848	1,609,678
Other assets	5,000	5,000
Total other assets	<u>1,755,848</u>	<u>1,614,678</u>
TOTAL ASSETS	<u><u>\$ 5,769,083</u></u>	<u><u>\$ 4,541,114</u></u>
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Current portion of long-term debt	\$ 62,760	\$ 60,916
Lines of credit	1,414,932	294,820
Note payable	-	100,000
Accounts payable	11,460	37,045
Other accrued expenses	18,499	9,957
Total current liabilities	<u>1,507,651</u>	<u>502,738</u>
LONG-TERM LIABILITIES		
Long-term debt, less current portion of mortgage note payable	<u>493,154</u>	<u>557,327</u>
Total liabilities	<u>2,000,805</u>	<u>1,060,065</u>
NET ASSETS		
Without donor restrictions	3,651,109	3,261,880
With donor restrictions	117,169	219,169
Total net assets	<u>3,768,278</u>	<u>3,481,049</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 5,769,083</u></u>	<u><u>\$ 4,541,114</u></u>

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

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF ACTIVITIES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019		2018	
	Without donor restrictions	With donor restrictions	Without donor restrictions	With donor restrictions
SUPPORT AND REVENUE:				
Grants and contributions	\$ 729,851	\$ 93,000	\$ 540,587	\$ 195,000
Transfers to homeowners	1,392,386	-	1,048,865	-
Mortgage discount amortization	235,289	-	167,547	-
Contributions of land, materials, labor	61,529	-	63,449	-
Interest income	755	-	894	-
ReStore income	471,889	-	447,893	-
Other income	56,307	-	48,701	-
Loss on disposal of property	(19,561)	-	-	-
Net assets released from restrictions	195,000	(195,000)	91,250	(91,250)
Total unrestricted support and revenue	3,123,445	(102,000)	2,409,186	103,750
EXPENSES:				
Program services:				
Construction	1,294,076	-	1,066,967	-
ReStore	420,073	-	409,784	-
Homeowner services	684,483	-	472,569	-
Supporting services:				
Fundraising	132,496	-	101,522	-
General and administrative	203,088	-	145,719	-
Total expenses	2,734,216	-	2,196,561	-
CHANGES IN NET ASSETS	389,229	(102,000)	212,625	103,750
NET ASSETS, BEGINNING OF YEAR	3,261,880	219,169	3,049,255	115,419
NET ASSETS, END OF YEAR	\$ 3,651,109	\$ 117,169	\$ 3,261,880	\$ 219,169

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

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2019 AND 2018

	2019					
	Program			Supporting Services		
	Construction	ReStore	Homeowner Services	Fundraising	General and Administrative	Total
Construction materials and supplies	\$ 1,068,941	\$ -	\$ -	\$ -	\$ -	\$ 1,068,941
Payroll and related costs	140,626	182,429	110,408	112,691	104,826	650,980
Mortgage discount	-	-	531,078	-	-	531,078
ReStore costs of operations	-	139,656	-	-	-	139,656
Insurance	35,600	18,083	1,078	1,078	1,080	56,919
Utilities	1,680	34,801	2,448	2,354	1,964	43,247
Depreciation and amortization	1,505	31,480	4,464	3,430	1,634	42,513
Professional fees	-	-	10,175	-	16,979	27,154
Interest	19,664	5,892	531	510	426	27,023
Habitat International tithes and contributions	10,000	-	-	-	15,000	25,000
Office supplies	-	-	-	4,444	17,775	22,219
Family services	-	-	16,298	-	-	16,298
Bank charges	-	-	-	-	15,954	15,954
Tools	10,416	-	-	-	-	10,416
Repair and maintenance	494	7,702	720	692	577	10,185
Training	670	-	2,607	-	6,264	9,541
Dues and fees	-	-	-	-	8,562	8,562
Community events	2,446	-	-	4,303	-	6,749
Meetings and travel	474	30	407	500	3,627	5,038
Advertising	-	-	-	2,494	2,251	4,745
Miscellaneous	1,560	-	-	-	2,829	4,389
Rental expenses	-	-	4,269	-	-	4,269
Contract labor	-	-	-	-	3,340	3,340
Total expenses	<u>\$ 1,294,076</u>	<u>\$ 420,073</u>	<u>\$ 684,483</u>	<u>\$ 132,496</u>	<u>\$ 203,088</u>	<u>\$ 2,734,216</u>

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

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RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FUNCTIONAL EXPENSES
YEARS ENDED JUNE 30, 2019 AND 2018

	2018					
	Program			Supporting Services		
	Construction	ReStore	Homeowner Services	Fundraising	General and Administrative	Total
Construction materials and supplies	\$ 827,129	\$ -	\$ -	\$ -	\$ -	\$ 827,129
Payroll and related costs	159,381	168,688	102,391	83,492	61,663	575,615
Mortgage discount	-	-	355,598	-	-	355,598
ReStore costs of operations	-	139,707	-	-	-	139,707
Insurance	32,682	15,484	990	-	6,358	55,514
Utilities	1,602	34,135	2,243	1,372	2,744	42,096
Depreciation and amortization	1,805	33,545	4,115	1,000	4,338	44,803
Professional fees	-	-	-	-	15,204	15,204
Interest	2,592	14,884	72	1,016	1,769	20,333
Habitat International tithes and contributions	10,000	-	-	-	15,000	25,000
Office supplies	899	1,702	-	3,679	14,715	20,995
Family services	-	-	3,307	-	-	3,307
Bank charges	-	-	-	-	3,195	3,195
Tools	11,443	-	-	-	-	11,443
Repair and maintenance	89	1,486	-	-	6,879	8,454
Training	4,215	-	-	48	-	4,263
Dues and fees	-	-	-	1,423	6,077	7,500
Community events	7,408	-	-	9,492	-	16,900
Meetings and travel	1,990	123	-	-	1,224	3,337
Advertising	-	-	-	-	545	545
Miscellaneous	5,732	-	-	-	1,154	6,886
Rental expenses	-	-	3,853	-	-	3,853
Contract labor	-	30	-	-	4,854	4,884
Total expenses	<u>\$ 1,066,967</u>	<u>\$ 409,784</u>	<u>\$ 472,569</u>	<u>\$ 101,522</u>	<u>\$ 145,719</u>	<u>\$ 2,196,561</u>

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

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
CASH FLOWS FROM OPERATING ACTIVITIES:		
Changes in net assets	\$ 287,229	\$ 316,375
Depreciation and amortization	42,513	44,803
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Gifts restricted for long-term purposes	(93,000)	(195,000)
Loss on disposal of property	19,561	-
(Increase) decrease in assets:		
Warehouse inventory	4,593	1,234
Grants/accounts receivable	(18,160)	(3,692)
Construction in process/lots held	(1,763)	(204,973)
Mortgages receivable	(147,613)	(40,638)
Pledges receivable	96,000	-
Increase (decrease) in liabilities:		
Accounts payable	(25,585)	(5,445)
Accrued expenses	8,542	3,525
Net cash provided by (used in) operating activities	<u>172,317</u>	<u>(83,811)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	<u>(57,930)</u>	<u>(6,785)</u>
Net cash used in investing activities	<u>(57,930)</u>	<u>(6,785)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net advances (repayments) on lines-of-credit	1,120,112	83,859
Borrowing (repayment) on note payable	(100,000)	100,000
Principal paid on long-term debt	(62,329)	(57,458)
Gifts restricted for long-term purposes	93,000	99,000
Net cash provided by financing activities	<u>1,050,783</u>	<u>225,401</u>
Net increase in cash and cash equivalents	1,165,170	134,805
Cash and cash equivalents, beginning of year	<u>810,245</u>	<u>675,440</u>
Cash and cash equivalents, end of year	<u><u>\$ 1,975,415</u></u>	<u><u>\$ 810,245</u></u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	<u><u>\$ 27,181</u></u>	<u><u>\$ 20,333</u></u>
Cash and cash equivalents reported above:		
Cash and cash equivalents	\$ 554,857	\$ 810,245
Restricted cash and cash equivalents	<u>1,420,558</u>	<u>-</u>
	<u><u>\$ 1,975,415</u></u>	<u><u>\$ 810,245</u></u>

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

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 1 - NATURE OF ORGANIZATION

Rutherford County Area Habitat for Humanity, Inc. ("Habitat" or "Organization"), is a not-for-profit organization, chartered by the State of Tennessee, and is the local affiliate of Habitat for Humanity International ("HFHI") headquartered in Americus, Georgia. The purpose of the Organization is to provide simple, decent, affordable homes for sale to low income families. Homes are sold at no profit and are financed with non-interest-bearing mortgages. The Organization also operates ReStores in Murfreesboro and Smyrna which receive donated used building materials, appliances, and other items and then resells them to the general public. The Smyrna ReStore was closed subsequent to June 30, 2019.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis of accounting recognizes revenues when earned. Expenses are recorded when incurred. The Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restriction and net assets with donor restriction.

- Net Assets Without Donor Restriction – Net assets that are not subject to or are no longer subject to donor-imposed stipulations.
- Net Assets With Donor Restriction – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Revenues are reported as increases in net assets without donor restriction unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restriction. 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. Expirations or donor restrictions on the net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. The Organization has adopted a policy to classify donor restricted contributions as without donor restrictions to the extent that donor restrictions were met in the year the contributions were received.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted Cash and Cash Equivalents

Restricted cash and cash equivalents represent cash the Organization has been required to set aside as a result of its Line of Credit agreement related to the new Legacy Pointe Subdivision. Bank approval is required for expenditures from these funds. See note 12.

Home Sales and Mortgage Notes Receivable

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgage notes receivable. These mortgage payments do not include interest and, accordingly, the mortgages have been discounted at various interest rates based upon prevailing market rates at the inception of the mortgages. The discounted value of the mortgages at the time of sale is generally less than the home's fair market value. Therefore, management believes that losses resulting from non-payment of mortgages are not reasonably probable, and accordingly, no allowance for mortgage notes receivable has been recorded. Past due status is based on contractual terms of the mortgage notes receivable. At 180 days past due, the mortgage notes receivable become subject to foreclosure.

A loan is considered impaired when, based upon current information and events, it is probable that the Organization will be unable to collect all amounts due according to the contractual terms of the loan agreement. Loans are classified as delinquent when payments are over 90 days overdue.

Inventory

For the ReStore operations, contributed inventory is not recorded until it is sold due to the uncertainty of its ultimate value. Purchased inventory is valued at the lower of cost or net realizable value with cost being determined using the first-in, first-out basis method.

Property and Equipment

The Organization capitalizes all expenditures for property and equipment in excess of \$500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Buildings and improvements, including rental property, are depreciated using the straight-line method over an estimated life ranging from ten to thirty-nine years. The remaining assets are depreciated using the straight-line method over three to seven year estimated life.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Revenue Recognition

Revenue is recognized when earned and support when contributions are made, which may be when cash is received, unconditional promises to give are made, or ownership of other assets is transferred to the Organization. Contributed land and equipment are recorded at estimated fair value at the date of the donation. In-kind contributions (primarily construction materials and land for development) are recorded based on their estimated value on the date of receipt.

Contributions of services are recognized if the services received create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing these skills, and would typically need to be purchased if not provided by donation.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions.

ReStore sales are recognized as revenue at the time merchandise is transferred to the customer. Historically, sales returns have been insignificant.

Concentration of Credit Risk

The Organization's credit risk relates to cash and cash equivalents. The Organization maintains deposits at one bank. The deposits in this bank, at times, exceed amounts covered by insurance provided by the U.S. Federal Deposit Insurance Corporation (FDIC) up to \$250,000. At June 30, 2019, deposits at this bank exceeded federally insured limits by approximately \$1,727,000. The Organization believes that there is no significant risk with respect to these deposits.

Income Taxes

Habitat is a not-for-profit organization that is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code, whereby only unrelated business income, as defined by Section 509(a)(1) of the Internal Revenue Code, is subject to federal income tax. The Organization does not believe that during the fiscal years ended June 30, 2019 and 2018 that it had unrelated business income and accordingly, no provision for income taxes has been recorded in the accompanying financial statements.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Income Taxes (continued)

Habitat follows guidance that clarifies the accounting for uncertainty in income taxes recognized in financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Habitat has no tax penalties or interest reported in the accompanying financial statements. Habitat has no uncertain tax positions at June 30, 2019 or 2018.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Pronouncement

For the year ended June 30, 2019, the Organization adopted the Financial Accounting Standards Board's Accounting Standards Update (ASU) No. 2016-14 – *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*. This 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 between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 is the 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, if applicable, are now reported as net assets with donor restrictions.

NOTE 3 - PLEDGES RECEIVABLE

At June 30, 2018 the Organization recorded a pledge receivable of \$96,000 which was been received for a house sponsorship. This pledge was collected during the June 30, 2019 fiscal year.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 4 - MORTGAGES RECEIVABLE

The Organization records and accounts for mortgage loans receivable based on the present value of the loan at the time of closing. For purposes of calculating loan present values, discount rates are determined based on the market rates for a similar type loan on the date of closing and range from 7.4% to 8.5% for all loans outstanding. Habitat also holds second and/or third mortgages on each home that is not reflected in loans outstanding. These mortgages represent the difference between market value and purchase price of the homes. These mortgages would only be collected if the family sold the property. Habitat holds a right of first refusal on each property.

A loan is considered impaired, in accordance with the impairment accounting guidance (FASB ASC 310-10-35-16), when based on current information and events, it is probable that the Organization will be unable to collect all amounts due from the borrower in accordance with the contractual terms of the loan. Based on this standard, management has concluded that none of its loans are impaired.

The Organization makes mortgage loans in accordance with its stated mission. As such, the Organization has credit exposure in the residential real estate market. No provision for mortgage loan losses has been made.

Future scheduled mortgage payments are summarized as follows:

<u>Year ending June 30,</u>	
2020	\$ 240,393
2021	235,331
2022	230,931
2023	227,100
2024	221,701
Thereafter	3,508,880
	<u>4,664,336</u>
Less discount	<u>(2,673,095)</u>
	<u>\$ 1,991,241</u>

Age Analysis of Past Due Loans (excluding unamortized discount):

30 - 59 days past due	\$ 272,501
60 - 90 days past due	211,809
91 - 120 days past due	70,062
121 - 150 days past due	125,549
151 - 180 days past due	1,995
Over 180 days past due	97,453
Current	<u>3,884,967</u>
	<u>\$ 4,664,336</u>

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 5 - PROPERTY AND EQUIPMENT

Property and equipment as of each June 30 is as follows:

	2019	2018
Vehicles	\$ 81,454	\$ 42,299
Office furniture and equipment	104,081	96,481
Rental property	43,650	96,544
Leasehold improvements	-	24,451
Building	901,533	890,358
	<u>1,130,718</u>	<u>1,150,133</u>
Less accumulated depreciation	462,487	430,267
	<u>668,231</u>	<u>719,866</u>
Land	227,235	227,235
	<u>\$ 895,466</u>	<u>\$ 947,101</u>

NOTE 6 - TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat voluntarily remits a portion of its cash contributions to HFHI. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$10,000 to HFHI in 2019 and 2018.

Habitat remitted \$15,000 in 2019 and 2018 to HFHI in accordance with the U.S. Stewardship and Organizational Sustainability Initiative.

NOTE 7 - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions at each June 30 are available for the following purposes:

	2019	2018
Rehabilitation projects	\$ 24,169	\$ 24,169
Home sponsorships	93,000	195,000
	<u>\$ 117,169</u>	<u>\$ 219,169</u>

NOTE 8 - OPERATING LEASE

The Organization entered into an operating lease effective January 1, 2018 for the lease of space for its Smyrna ReStore. Lease payments of \$5,000 per month are due for the term of the lease. Rent expense of \$60,000 has been included in the ReStore costs of operations on the statements of functional expenses for June 30, 2019 and 2018. The lease term ended in August 2019 and the Smyrna ReStore was closed at that time.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 9 - LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The following table reflects the Organization's financial assets as of June 30, 2019, reduced by amounts not available for general expenditure within one year. Financial assets are considered unavailable when illiquid or not convertible to cash within one year, or because the governing board has set aside the funds for a specific contingency reserve or a long-term investment as board designated endowments (if applicable).

Financial assets:	
Cash and cash equivalents	\$ 554,857
Cash and cash equivalents - restricted	1,420,558
Accounts receivable	25,716
Financial assets, at year-end	<u>2,001,131</u>
Less those unavailable for general expenditure within one year, due to:	
Restricted cash - held for development	(1,420,558)
Purpose restricted net assets	<u>(117,169)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 463,404</u>

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. The Organization also has lines of credit, which it could draw upon in the event of an anticipated liquidity need. Funds available under lines of credit are discussed in Note 10.

NOTE 10 - LINES OF CREDIT

The Organization has three lines-of-credit with a bank available for its operations. The first line is a \$300,000 line secured by the mortgage notes receivable and deeds of trust and matures June 19, 2021. The interest rate on the line at June 30, 2019 was 7.25%. The balance outstanding at June 30, 2019 is \$245,494.

The second unsecured line for \$100,000 is used for ReStore inventory purchases, and matures November 30, 2020. The interest rate on the line at June 30, 2019 was 7.5%. The balance outstanding at June 30, 2019 is \$10,688.

The third line is a \$1,298,750 line secured by 4.62 acres (Phase I) in the new Legacy Pointe Subdivision, which is being developed by the Organization. This line matures June 28, 2022. The interest rate on the line at June 30, 2019 was the prime rate minus 4% (currently 1.5%) and is payable monthly. The balance outstanding at June 30, 2019 is \$1,158,750. Funds drawn on the line are deposited into a separate bank account and are used to pay costs associated with the development. Lots under development will be used for home construction under the Organization's programs. See Note 12.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 11 - LONG TERM DEBT

Long term debt is composed of the following:

	2019	2018
Note payable to bank; variable interest rate at the bank's index rate minus 4% (currently 1.5%), maturity date of April 19, 2023. The note is secured by real estate.	\$ 555,914	\$ 618,243
Less current portion	<u>62,760</u>	<u>60,916</u>
	<u>\$ 493,154</u>	<u>\$ 557,327</u>

Aggregate maturities of long-term debt are as follows:

<u>Year ending June 30,</u>	
2020	\$ 62,760
2021	62,760
2022	62,760
2023	<u>367,634</u>
	<u>\$ 555,914</u>

NOTE 12 - LEGACY POINTE SUBDIVISION

The Organization purchased 17.8 acres in Murfreesboro, Tennessee, which is being used to develop the Legacy Pointe Subdivision. The subdivision is expected to have 77 total lots developed over four phases. Infrastructure costs will be allocated to each lot in the subdivision based on estimates for total costs of the subdivision. Any costs resulting from a change in estimated costs will be allocated to the remaining lots upon their completion. The subdivision is being financed with a line of credit described in Note 10. Advances on the line of credit are required to be deposited into a restricted bank account, whereby the bank approves expenditures from the account. The Organization was also required to transfer \$261,808 cash to the restricted account. As of June 30, 2019, the Organization had entered into construction contracts to develop the site totaling \$1,072,516.

NOTE 13 - 401K PLAN

The Organization has a 401k plan that covers all eligible employees who have reached age 30 and have completed one year of service. Participating employees may contribute up to 96% of their compensation to the plan, subject to IRS limits. The Organization makes a discretionary matching contribution determined annually. For the year ending June 30, 2019 participating employee deferrals were matched 50% up to 3% of eligible compensation. For the year ended June 30, 2019 and 2018 matching contributions were \$4,513 and \$5,881, respectively.

RUTHERFORD COUNTY AREA HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2019 AND 2018

NOTE 14 - CONTINGENCY

During the year, the Organization sold three first mortgages to Tennessee Housing Development Agency (THDA) for \$369,000. A third-party agency contracted by THDA services the mortgages collecting principal and escrow payments from the homeowners. The Organization guarantees payment of the mortgages to THDA for the homeowners. In the event the homeowner defaults on their mortgage, THDA assigns the deed of trust back to the Organization, who would then be able to initiate foreclosure proceedings. Thirty-one mortgages totaling \$2,006,567 are serviced under this arrangement.

NOTE 15 - FUNCTIONAL ALLOCATION OF EXPENSES

The cost of providing the Organization's programs and other activities is summarized on a functional basis in the statements of activities and statements of functional expenses. Expenses that can be identified with a specific program or support services are charged directly to that program or support service. Costs common to multiple functions have been allocated among the various functions benefited using a reasonable allocation method that is consistently applied, as follows:

- Salaries and wages, benefits, and payroll taxes are allocated based on activity reports prepared by employees.
- Occupancy and depreciation are allocated based on use of the space and the various assets involved in programs and supporting activities.
- Telephone and internet services, insurance, supplies and various other expenses that cannot be directly identified are allocated on the basis of employee costs for each program and supporting activity.

Every three years, or more often when new space or programs are added, the bases on which costs are allocated are evaluated.

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

Fundraising costs are expensed as incurred, even though they may result in contributions received in future years.

NOTE 16 - SUBSEQUENT EVENTS

Subsequent events have been evaluated through October 25, 2019, which is the date that the financial statements were available to be issued. Events occurring after that date have not been evaluated to determine whether a change in the financial statements would be required. The Smyrna ReStore has been permanently closed subsequent to June 30, 2019 and the lease was not renewed.