

**DORCHESTER HABITAT FOR
HUMANITY, INC.**

**INDEPENDENT AUDITORS' REPORT
AND AUDITED FINANCIAL STATEMENTS**

**AS OF AND FOR THE YEAR ENDED
JUNE 30, 2020**

Dorchester Habitat for Humanity, Inc.
Audited Financial Statements
As of and for the Year Ended June 30, 2020

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William H. Jarrard, CPA
Christopher C. Nowell, CPA
William A. Russell III, CPA
Derrick V. Apple, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Dorchester Habitat for Humanity, Inc.
Summerville, SC

We have audited the accompanying financial statements of Dorchester Habitat for Humanity, Inc. ("the Entity"), which comprise the statement of financial position as of June 30, 2020 and 2019, and the related statements of activities, functional expenses and cash flows for the fiscal year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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 auditors consider 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.

Jarrard, Nowell & Russell, LLC is an Independent Member of the BDO Alliance USA.

JARRARD, NOWELL & RUSSELL, LLC

CERTIFIED PUBLIC ACCOUNTANTS

William H. Jarrard, CPA
Christopher C. Nowell, CPA
William A. Russell III, CPA
Derrick V. Apple, CPA

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Dorchester Habitat for Humanity, Inc. as of June 30, 2020 and 2019, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Jarrard, Nowell, & Russell, LLC

Charleston, SC
September 21, 2020

Jarrard, Nowell & Russell, LLC is an Independent Member of the BDO Alliance USA.

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DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
As of June 30, 2020 and 2019

	2020	2019
Assets		
Current Assets		
Cash	\$ 424,334	\$ 428,999
Accounts Receivable	17,529	13,251
Other Current Assets	46,042	18,786
Construction in Progress	294,240	64,825
Mortgage Receivables, net, current	83,733	81,762
Total Current Assets	\$ 865,878	\$ 607,623
Property and Equipment, net	\$ 1,405,528	\$ 1,441,273
Other Assets		
Land Held for Development	483,720	225,937
Mortgages Receivables, net, long term	1,344,404	1,420,087
Land Held for Investment	-	1
Total Other Assets	\$ 1,828,124	\$ 1,646,025
Total Assets	\$ 4,099,530	\$ 3,694,921
Liabilities and Net Assets		
Current Liabilities		
Accounts Payable	\$ 43,628	\$ 35,023
Compensated Absences	11,115	4,403
Accrued Salaries	16,780	11,795
Note Payable	50,660	41,365
Total Current Liabilities	\$ 122,183	\$ 92,586
Long Term Liabilities		
Note Payable	620,572	571,823
Total Long Term Liabilities	\$ 620,572	\$ 571,823
Total Liabilities	\$ 742,755	\$ 664,409
Net Assets		
Without Donor Restrictions	\$ 3,328,975	\$ 3,003,712
With Donor Restrictions	27,800	26,800
Total Net Assets	\$ 3,356,775	\$ 3,030,512
Total Liabilities and Net Assets	\$ 4,099,530	\$ 3,694,921

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 39,320	\$ 11,950	\$ 51,270
Contributions In-kind	-	27,513	27,513
Grant Revenue	-	139,341	139,341
Home Sales, net	75,006	-	75,006
Mortgage Discount Amortization	130,080	-	130,080
Special Events	23,723	-	23,723
ReStore Sales	1,259,624	-	1,259,624
Interest Income	109	-	109
Other Income	21,690	-	21,690
Net Assets Released from Restrictions	177,804	(177,804)	-
Total Revenues and Other Support	<u>\$ 1,727,356</u>	<u>\$ 1,000</u>	<u>\$ 1,728,356</u>
Expenses			
Program			
Construction	402,076	-	402,076
ReStore	855,181	-	855,181
Total Program Expenses	<u>\$ 1,257,257</u>	<u>\$ -</u>	<u>\$ 1,257,257</u>
Support Services			
Management and General	65,979	-	65,979
Fundraising	71,996	-	71,996
Special Events	6,861	-	6,861
Total Support Services	<u>\$ 144,836</u>	<u>\$ -</u>	<u>\$ 144,836</u>
Total Expenses	<u>\$ 1,402,093</u>	<u>\$ -</u>	<u>\$ 1,402,093</u>
Change in Net Assets	<u>\$ 325,263</u>	<u>\$ 1,000</u>	<u>\$ 326,263</u>
Net Assets at Beginning of Year	3,003,712	26,800	3,030,512
Net Assets at End of Year	<u>\$ 3,328,975</u>	<u>\$ 27,800</u>	<u>\$ 3,356,775</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES
For the Fiscal Year Ended June 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenues and Other Support			
Contributions	\$ 36,378	\$ 7,030	\$ 43,408
Contributions In-kind	49,630	5,000	54,630
Grant Revenue	-	58,010	58,010
Home Sales, net	296,756	-	296,756
Mortgage Discount Amortization	115,794	-	115,794
Special Events	101,314	-	101,314
ReStore Sales	1,189,377	-	1,189,377
Interest Income	2,291	-	2,291
Other Income	13,384	-	13,384
Net Assets Released from Restrictions	76,040	(76,040)	-
Total Revenues and Other Support	<u>\$ 1,880,964</u>	<u>\$ (6,000)</u>	<u>\$ 1,874,964</u>
Expenses			
Program			
Construction	801,345	-	801,345
ReStore	754,499	-	754,499
Total Program Expenses	<u>\$ 1,555,844</u>	<u>\$ -</u>	<u>\$ 1,555,844</u>
Support Services			
Management and General	37,778	-	37,778
Fundraising	81,376	-	81,376
Special Events	59,379	-	59,379
Total Support Services	<u>\$ 178,533</u>	<u>\$ -</u>	<u>\$ 178,533</u>
Total Expenses	<u>\$ 1,734,377</u>	<u>\$ -</u>	<u>\$ 1,734,377</u>
Change in Net Assets	\$ 146,587	\$ (6,000)	\$ 140,587
Net Assets at Beginning of Year	2,857,125	32,800	2,889,925
Net Assets at End of Year	<u><u>\$ 3,003,712</u></u>	<u><u>\$ 26,800</u></u>	<u><u>\$ 3,030,512</u></u>

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2020

	Program			Support Service				Total
	Construction	ReStore	Total	Management and General	Fundraising	Special Events	Total	Expenses
Salaries	\$ 122,449	\$ 370,986	\$ 493,435	\$ 5,340	\$ 40,125	\$ -	\$ 45,465	\$ 538,900
Payroll Taxes	9,248	26,845	36,093	404	2,993	-	3,397	39,490
Employee Benefits	13,033	16,577	29,610	165	1,393	-	1,558	31,169
Total Salaries and Benefits	<u>\$ 144,730</u>	<u>\$ 414,408</u>	<u>\$ 559,139</u>	<u>\$ 5,909</u>	<u>\$ 44,511</u>	<u>\$ -</u>	<u>\$ 50,420</u>	<u>\$ 609,559</u>
Cost of Homes Sold	\$ 134,011	\$ -	\$ 134,011	\$ -	\$ -	\$ -	\$ -	\$ 134,011
Supplies	3,816	138,960	142,776	539	1,433	5,936	7,908	150,684
Vehicle Expense	-	9,403	9,403	-	-	-	-	9,403
Telephone	1,359	4,431	5,790	250	675	-	925	6,715
Advertising	20,306	74,610	94,916	-	2,906	722	3,628	98,544
Postage and Shipping	128	130	258	18	164	-	182	440
Occupancy	7,109	35,198	42,307	2,229	2,608	-	4,837	47,144
Insurance	6,319	15,120	21,439	856	977	-	1,833	23,272
Professional Fees	36,511	31,895	68,406	15,323	7,374	-	22,697	91,103
Seminar Travel & Meals	2,395	9,273	11,668	-	1,104	-	1,104	12,772
Printing and Publications	925	6,547	7,472	390	1,538	-	1,928	9,401
Homeowner and Volunteer Expenses	21,294	2,244	23,538	-	-	-	-	23,538
Interest	6,976	21,711	28,687	2,171	2,481	-	4,652	33,340
Bank and Processing Charges	621	29,512	30,133	363	323	-	686	30,819
Dues and Memberships	7,930	9,021	16,951	4	1,878	203	2,085	19,036
Repairs and Maintenance	1,715	11,137	12,852	799	914	-	1,713	14,565
Loss on Forclosure	-	-	-	33,555	-	-	33,555	33,555
Habitat International	100	-	100	-	-	-	-	100
Total Expenses Before Depreciation	<u>\$ 396,245</u>	<u>\$ 813,600</u>	<u>\$ 1,209,845</u>	<u>\$ 62,406</u>	<u>\$ 68,886</u>	<u>\$ 6,861</u>	<u>\$ 138,153</u>	<u>\$ 1,347,998</u>
Depreciation	5,831	41,581	47,412	3,573	3,110	-	6,683	54,095
Total Expenses	<u>\$ 402,076</u>	<u>\$ 855,181</u>	<u>\$ 1,257,257</u>	<u>\$ 65,979</u>	<u>\$ 71,996</u>	<u>\$ 6,861</u>	<u>\$ 144,836</u>	<u>\$ 1,402,093</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Fiscal Year Ended June 30, 2019

	<u>Program</u>			<u>Support Service</u>				<u>Total Expenses</u>
	<u>Construction</u>	<u>ReStore</u>	<u>Total</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Special Events</u>	<u>Total</u>	
Salaries	\$ 108,396	\$ 341,314	\$ 449,710	\$ 9,792	\$ 46,392	\$ 4,999	\$ 61,183	\$ 510,893
Payroll Taxes	8,471	25,370	33,841	765	3,454	-	4,219	38,060
Employee Benefits	4,806	17,702	22,508	961	1,442	-	2,403	24,911
Total Salaries and Benefits	<u>\$ 121,673</u>	<u>\$ 384,386</u>	<u>\$ 506,059</u>	<u>\$ 11,518</u>	<u>\$ 51,288</u>	<u>\$ 4,999</u>	<u>\$ 67,805</u>	<u>\$ 573,864</u>
Cost of Homes Sold	\$ 592,753	\$ -	\$ 592,753	\$ -	\$ -	\$ -	\$ -	\$ 592,753
Supplies	2,310	88,975	91,285	496	1,132	745	2,373	93,658
Vehicle Expense	-	10,118	10,118	-	-	-	-	10,118
Telephone	1,489	5,361	6,850	273	759	-	1,032	7,882
Advertising	2,944	71,176	74,120	-	3,139	3,222	6,361	80,481
Postage and Shipping	329	235	564	96	353	-	449	1,013
Occupancy	4,312	27,483	31,795	1,738	2,256	2	3,996	35,791
Insurance	3,201	14,293	17,494	750	861	-	1,611	19,105
Professional Fees	33,329	24,203	57,532	14,434	7,262	258	21,954	79,486
Seminar Travel & Meals	6,315	15,974	22,289	149	3,190	572	3,911	26,200
Printing and Publications	2,160	4,747	6,907	483	1,800	2,781	5,064	11,971
Homeowner and Volunteer Expenses	10,503	3,298	13,801	-	115	-	115	13,916
Fundraising Expense	-	-	-	-	226	45,722	45,948	45,948
Interest	4,809	22,167	26,976	2,206	2,522	-	4,728	31,704
Bank and Processing Charges	477	16,725	17,202	277	366	1,078	1,721	18,923
Dues and Memberships	4,780	7,116	11,896	174	1,062	-	1,236	13,132
Repairs and Maintenance	3,870	20,744	24,614	1,807	2,063	-	3,870	28,484
Habitat International	500	-	500	-	-	-	-	500
Total Expenses Before Depreciation	<u>\$ 795,754</u>	<u>\$ 717,001</u>	<u>\$ 1,512,755</u>	<u>\$ 34,401</u>	<u>\$ 78,394</u>	<u>\$ 59,379</u>	<u>\$ 172,174</u>	<u>\$ 1,684,929</u>
Depreciation	5,591	37,498	43,089	3,377	2,982	-	6,359	49,448
Total Expenses	<u>\$ 801,345</u>	<u>\$ 754,499</u>	<u>\$ 1,555,844</u>	<u>\$ 37,778</u>	<u>\$ 81,376</u>	<u>\$ 59,379</u>	<u>\$ 178,533</u>	<u>\$ 1,734,377</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
For the Fiscal Years Ended June 30, 2020 and 2019

	2020	2019
Cash Flows from Operating Activities		
Increase in net assets	\$ 326,263	\$ 140,587
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:		
Depreciation	54,095	49,448
Amortization of discount on mortgages	(130,080)	(115,794)
Discounts on mortgages issued	106,763	457,157
(Increase)/Decrease in:		
Construction in progress	(229,415)	30,692
Other current assets	(27,256)	(4,132)
Increase/(Decrease) in:		
Accounts payable	8,605	3,897
Payroll taxes and benefits payable	11,697	1,690
Net Cash Provided (Used) By Operating Activities	\$ 120,672	\$ 563,545
Cash Flows From Investing Activities		
Lots used in development and closed	\$ 39,046	\$ 154,900
Purchase of land for inventory	(257,783)	(100,000)
Land held for investment	1	5,175
Property held for resale	-	-
Building improvements	(9,150)	(9,980)
Purchase of equipment	(9,200)	-
Principal balances of foreclosed/paid off properties	69,703	-
Collection of mortgage receivable	163,272	251,693
Issuance of mortgage receivable	(179,269)	(801,114)
Net Cash (Used)/Provided By Investing Activities	\$ (183,380)	\$ (499,326)
Cash Flows From Financing Activities		
Proceeds from issuance of note payable	\$ 90,000	\$ -
Principal payments on note payable	(31,957)	(41,848)
Net Cash (Used)/Provided By Financing Activities	\$ 58,043	\$ (41,848)
(Decrease)/Increase In Cash and Cash Equivalents	\$ (4,665)	\$ 22,371
Cash and Cash Equivalents At Beginning Of Year	428,999	406,628
Cash and Cash Equivalents At End Of Year	\$ 424,334	\$ 428,999
Supplemental Disclosures		
Noncash investing and financing activities:		
Assets donated for use	-	-
Interest paid	33,340	31,704
Income taxes paid	-	-

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Nature of Organization

Dorchester Habitat for Humanity, Inc. (DHFH) was founded in 1993 and is an approved affiliate for Habitat for Humanity International (HFHI). DHFH builds and sells new homes to first-time homeowners. DHFH's homeowners are working families who must earn 35%-80% of the Area Median Income for Dorchester County as determined yearly by the HUD Home Program, the South Carolina Housing Finance & Development Authority, and the Federal Home Loan Bank. Habitat homes are built by DHFH's construction crew and hundreds of volunteers. DHFH holds an interest-free first mortgage on each home built with terms of twenty (20), twenty-five (25), or thirty (30) years. Since 1993, DHFH has helped build sixty-seven (67) homes for working families in Dorchester County, South Carolina. DHFH also operates a ReStore, which accepts donated items that are sold to the general public. ReStore proceeds are used to fund DHFH's operations and home building efforts.

Mission

DHFH is a locally run affiliate of Habitat for Humanity International, a non-profit, ecumenical Christian housing organization. DHFH's mission statement is "Putting God's love into action by bringing people together building homes and hope." DHFH's vision statement is "Transforming Dorchester County one home at a time." DHFH is dedicated to addressing Dorchester County's need for decent and affordable housing.

Organizational and Program Values

DHFH relies on the generosity of volunteers to keep the cost of construction of Habitat homes low. Volunteers donate approximately 2,000 hours to build each Habitat home.

DHFH builds permanent, affordable, decent, safe, simple, and energy-efficient homes in partnership with low-wealth families who meet the requirements of its Construction and Homeownership Program.

DHFH seeks to build in safe, decent, and diverse neighborhoods.

DHFH's Construction and Homeownership Program requires that applicants earn between 35%-80% of the Median Income for Dorchester County, South Carolina; have a debt-to-income ratio at or below 40% for fiscal year 2020 and 2019, respectively; have a housing expenses-to-income ratio at or below 32% for fiscal year 2019 and

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Organizational and Program Values – (continued)

2020, respectively; have an established and good credit history; and work at least 425 sweat-equity hours in partnership with DHFH, including working at least 60 hours on other future homeowners' homes and at least 60 hours on their own home.

DHFH thrives only through the support of the community, and it owes the community a regular accounting of its spending and achievements.

DHFH builds to Energy Star 3 standards by utilizing sustainable and energy efficient building products and methods that reduce homeowners' living expenses and promotes environmental stewardship.

DHFH works to strengthen the financial stability and creditworthiness of low-wealth families by partnering with the Financial Transformation. The Financial Transformation provides financial, budgeting, and credit counseling and education before the application process, during the application process, and after homeownership.

Homeowners pay back to DHFH an interest-free mortgage over twenty, twenty-five, or thirty years. The mortgage payments go into a revolving fund ("seed money") used to build additional Habitat homes in partnership with other future homeowners.

The ReStore is DHFH's largest fundraiser accepting and selling donated items from and to the public six days a week. The ReStore depends upon a large number of volunteers who perform various tasks ranging from assisting customers, creating DIY projects and displays, repairing furniture, and organizing donations.

Basis of Accounting

The financial statements of DHFH have been prepared on the accrual basis of accounting. Revenue, other than contributions, is recognized when earned and expenses are recorded when the obligations are incurred.

Basis of Presentation

DHFH follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets accounting principles generally accepted in the United States of America ("GAAP") that DHFH follows to ensure the consistent reporting of its financial

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Basis of Presentation – (continued)

condition, changes in net assets and cash flows. References to GAAP issued by the FASB in the accompanying footnotes are the FASB Accounting Standards Codification (“ASC”).

DHFH’s financial statements have been prepared in accordance with standards of accounting and financial reporting under FASB ASC 958, *Not-For-Profit Entities* and the AICPA Audit and Accounting Guide, *Not-For-Profit Entities*. Under this authoritative guidance, DHFH is required to provide financial statements which are prepared with focus on DHFH as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

Resources are reported for accounting purposes in separate classes of net assets based on the existence or absence of donor-imposed restrictions. In the accompanying financial statements, net assets having similar characteristics have been combined into similar categories.

- **Net assets without donor restrictions** are those currently available at the discretion of the Board of Directors (the “Board”) for use in DHFH’s operations and those resources invested in property and equipment.
- **Net assets with donor restrictions** are assets restricted by donors for any of the following: certain time periods, certain purposes, or assets that must be maintained permanently by DHFH as required by the donor but DHFH is permitted to use or expend part or all of any income derived from those assets.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets. Gains and losses on investments and other assets and liabilities are reported as increases and decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or law.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Basic Program

DHFH builds homes with donated funds, ReStore Income, and mostly volunteer labor. The homes are sold to working families at fair market value as determined by an independent third party appraisal. Prior to July 1, 2016 the homes were sold at cost. All related costs of construction are recognized on the "completed contract" method, which recognizes when a contract (home) is substantially or entirely completed.

When a home is sold, DHFH issues a non interest bearing mortgage to the homeowner for the fair market value of the home. This is referred to as the first mortgage. DHFH will issue a second mortgage on a home when the value of the first mortgage is less than the fair market value of the home on the date of sale. Prior to July 1, 2016, all homes were issued a second mortgage to reflect the difference between cost and fair market value.

Currently DHFH may issue a first mortgage to a homeowner for below the fair market value of the home on date of sale in the event that the fair market value exceeds the previously prescribed affordability standards set by DHFH's policies. In this event, a second mortgage is issued for the difference between the first mortgage and the fair market value of the home.

No payments are due on the second mortgage except in the case of a sale to a third party, foreclosure, and/or a third party refinancing. The second mortgage is forgiven based on the individual terms of the second mortgage when issued. Typically, the second mortgage is forgiven when the first mortgage is satisfied in full (except in the case of refinancing or a sale to a third party). DHFH does not generally collect on the second mortgage and thus does not reflect the value of the second mortgages in its financial statements.

On October 27, 2016, the board of directors approved increasing the length of future mortgages from twenty five years to thirty years. Mortgage notes receivable are discounted at an imputed interest rate and interest income is recognized over the life of the mortgage in accordance with FASB ASC 835-30, imputation of interest.

Cash and Cash Equivalents

For the purposes of the Statements of Cash Flows, DHFH considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. As of June 30, 2020 and 2019, DHFH did not have any cash equivalents.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Promises to Give

Unconditional promises to give are recognized as revenues in the period in which the promise is received, and as assets, decreases in liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

Construction in Progress

Construction in Progress represents the cost of homes that are currently under construction for qualified future homeowners. Purchased materials and land for the construction of these homes are recorded at cost. Donated materials, labor, and land, if applicable, are recorded at estimated fair market value. Land is recorded and tracked in the land held for development account. Overhead and administration expenses of DHFH's home construction are included in other program expenses of DHFH or under construction program expenses.

Donated Assets

DHFH receives donated goods for various purposes, including items to be resold in the ReStore and items to be used for the construction of homes. Donated items to the ReStore include building materials, home goods, and furniture. Items donated to the ReStore are deemed to be of value only when sold. In accordance with ASC 958-605-25-4, Not-for-Profit Entities-Revenue Recognition, the donated inventory is not recorded in the financial statements until the time of sale. Revenue is recognized at the time of sale and reflected in the statement of activities. The values for ReStore donated goods as of June 30, 2020 and 2019 were zero. Donated materials for construction and lot inventory are recorded at their estimated fair market values at the date of the donation. The values of donated goods for construction projects are allocated to their specific construction-in-progress accounts. Merchandise purchased for resale is recorded at cost.

Property and Equipment

Purchased property and equipment for construction and the ReStore are recorded at cost. Donated property and equipment not intended for resale are recorded at the approximate fair market value on the date of donation. Expenditures for major additions and improvements, generally in excess of \$2,500, are capitalized.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Property and Equipment (continued)

Minor replacements, maintenance, and repairs are expensed as incurred. When property and equipment are retired or otherwise disposed, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of the operations for the respective period. Depreciation is computed by the straight-line method over the estimated useful lives of the assets, ranging from 5 to 40 years.

Compensated Absences

Full time and part-time employees of DHFH are entitled to paid time off (PTO) which is used for vacations, paid sick days, and personal days off, depending on job classification and length of service. Part-time employees, and full-time employees working less than forty (40) and more than thirty-four (34) hours per week are eligible for PTO benefits and the accrual of PTO hours on a prorated basis based upon the percentage of the forty (40) hour work week that the employee usually works. The following schedule provides PTO hours allowed based on years of service:

<u>Years of Service</u>	<u>Annual PTO Hours</u>
0 - 3 years	120
4 - 8 years	160
Over 9 years	200

Change in Net Assets

The change in net assets is affected by, and dependent upon, home sales. In particular, DHFH sold one (1) home in 2020 and five (5) homes in 2019. When home sales occur, the revenue is recorded, and the related previously capitalized construction in progress is recognized and expensed in the year of the sale. On July 1, 2016, DHFH adopted Policy 22 from Habitat for Humanity International's US Affiliated Organizations Policy Handbook. The policy states the sales price of housing units is its fair market value. The fair market value is determined by a third party appraisal for each housing unit. If the qualified program participant does not financially qualify for sale at FMV, then DHFH has the ability to use other means to reach an affordable payment. For 2020 and 2019, all homes were sold at fair market value as determined by appraisal.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Effect of Change in Policy

Prior to adoption, Policy 23 referred to the “total repayable price of the home” which was stated by DHFH as the first mortgage. The practice for determining the “total repayable price of the home” was the total development costs of the home unless the market value by appraisal or affordability by the homeowner using prescribed ratio testing was less than total development costs. The prior policy did not include subordinate mortgage amounts when recording notes receivable.

Home Sales

Revenue related to home sales is recognized when properties are sold to qualified homebuyers. The “sales price” is the total of all consideration paid by (or on behalf of) the homebuyer for the home. This includes any down payment and the amount of all mortgages, including any subordinate mortgage in favor of DHFH or any third party lender.

Donated Services

Donated services are recognized in accordance with Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) 958 *Not-For-Profit Entities* if services (a) create or enhance a non-financial asset, or (b) require special skills, are performed by people with those skills, and would otherwise be purchased by DHFH. Volunteers perform a variety of tasks that assist DHFH with specific programs, fund-raising, and various team assignments throughout the year. These tasks are not recognized as contributions in the financial statements since the recognition criteria under FASB ASC 958 were not met.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Revenue Recognition

In accordance with Standards FASB ASC 958-605-25, Accounting or Contributions Received and Contributions Made, contributions received are recorded as with or without donor restrictions depending on the existence and/or nature of any donor restrictions. DHFH reports contributions as restricted if they are received with donor stipulations that limit the use of the donation. Donor restrictions expire when either the stipulated time restriction ends or the purpose restriction is accomplished. When a donor restriction expires the asset with donor restrictions is reclassified to an asset without donor restrictions and reported in the statement of activities as a net asset without restriction. DHFH reports gifts of property and equipment as unrestricted support unless explicit donor stipulations specify how the assets must be used. It is DHFH's policy to record restricted contributions received and released in the same year as unrestricted support. DHFH had \$27,800 and \$26,800 in assets with donor restrictions at the end of the 2020 and 2019 fiscal years, respectively.

Advertising

Cost of promotions and advertising are expensed as incurred. Advertising and promotion expenses total \$98,544 and \$80,481 for the fiscal years ended June 30, 2020 and 2019.

Expense Allocation

The cost of providing various programs and other activities are summarized on a functional basis in the Statements of Activities and the Statements of Functional Expenses. Directly identifiable expenses are charged to program services including construction or ReStore, or supporting services including management and general, fundraising, or special events, as applicable. Accordingly, overhead and certain other expenses are allocated to functional categories based on percentages estimated by the organization's management.

Income Taxes

DHFH is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, DHFH qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation. DHFH has no tax liability on unrelated business income for the fiscal years ended June 30, 2020 and 2019.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

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

Income Taxes (continued)

Management has evaluated the tax positions of DHFH and does not believe that any uncertain tax positions or unrecognized tax benefits exist for the fiscal years ended June 30, 2020 and 2019. DHFH's policy is to report accrued interest related to unrecognized tax benefits, when applicable, as interest expense and to report penalties as other expense.

DHFH currently has no taxable unrelated business income. Accordingly, no provision for income taxes has been recorded. With few exceptions, DHFH is no longer subject to income tax examinations by the U.S. federal, state or local tax authorities for years before the fiscal year ended June 30, 2016.

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.

Note 2 – Restricted Cash

DHFH did not have any cash balances subject to restrictions as of June 30, 2020.

Note 3 – Homeowner Escrow Receivable

During the fiscal year 2014, DHFH outsourced its mortgage loan and escrow management to the Habitat for Humanity Michigan Fund (HFHMF), now Affiliate Mortgage Services (AMS). AMS is a full-service licensed lending entity, providing loan origination, loan servicing, collections, loan restructuring, foreclosure mitigation advice, and delinquency management services.

As a part of this service agreement, DHFH transferred all escrow balances to AMS. As of June 30, 2020 the escrow account has a deficit balance. DHFH remits payment to AMS to assume the deficit balance. As of June 30, 2020 and 2019, the receivables from homeowners for deficit escrows accounts was \$10,301 and \$5,266 respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 4 – Promises to Give

Promises to give consist of amounts due from private donors based on the terms of their pledge agreements. Management periodically reviews the status of all promises to give for collectability. Each balance is assessed based on management’s knowledge and relationship with the donor along with the age of the pledge balance. As a result of these reviews, balances deemed to be uncollectible are charged directly to uncollected receivable expense. Management believes that the use of the direct write-off method approximates the results that would be presented if an allowance for doubtful accounts were recorded.

There were no promises to give as of fiscal years ended June 30, 2020 and 2019.

Note 5 – Mortgage Note Receivable

DHFH directly finances all of the homes that it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. During fiscal years 2020 and 2019, one (1) and five (5) homes were sold to qualifying homes respectively. Mortgages receivable consist of non-interest bearing promissory notes in amounts ranging from \$3,956 to \$178,274. Monthly principal payments range from \$76 to \$498, and maturities range from 2021 to 2050. The resulting mortgages are non-interest bearing, and the presentation of their book value is discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages. For fiscal years 2020 and 2019, discount rates were 7.38% and 7.66%, respectively.

Because the mortgages are secured by the deeds of trust on the respective properties, management believes no allowance for doubtful mortgages is necessary. Sales to homeowners for the fiscal years ended June 30, 2020 and 2019 are as follows:

	2020	2019
Gross Sales to Homeowners	\$ 181,769	\$ 753,913
Less Discount on Sales to Homeowners	(106,763)	(457,157)
Net Sales to Homeowners	<u>\$ 75,006</u>	<u>\$ 296,756</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 5 – Mortgage Note Receivable - (continued)

DHFH discounts the mortgages using the prevailing market rates for low-income housing at the time the homes are sold. The discount is amortized using the effective interest method. Mortgages receivable as of June 30, 2020 and 2019 are as follows:

	<u>2020</u>	<u>2019</u>
Mortgage Note Receivable at Face Value	\$ 3,273,303	\$ 3,370,332
Less: Unamortized Discount	(1,845,166)	(1,868,483)
Total	<u>\$ 1,428,137</u>	<u>\$ 1,501,849</u>
Less: Current Portion	(83,733)	(81,762)
Mortgage Receivable, Long Term	<u>\$ 1,344,404</u>	<u>\$ 1,420,087</u>

Future collections on these mortgages will be received over the next five years and thereafter as follows:

2021	\$ 181,926
2022	181,417
2023	177,510
2024	176,978
2025	173,006
Thereafter	<u>2,382,466</u>
Total	<u>\$ 3,273,303</u>

Note 6 – Construction in Progress

Costs associated with the acquisition, development, and construction of a project are capitalized. Such costs may include (1) pre-acquisition costs such as land acquisition or improvement; (2) infrastructure development or construction costs such as equipment rental, construction materials or subcontractors; and (3) other costs such as interest, insurance, or construction benefits. Most of the projects included in construction in progress are currently expected to be completed and sold in the year ending June 30, 2021.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 6 – Construction in Progress – (Continued)

Construction in progress consists of the following at June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>	<u>Total</u>
133 Cady Drive	\$ 26,183	\$ 53,215	\$ 79,398
Half Street Lot 4	62	5,805	5,867
Half Street Lot 5	109	5,805	5,914
1027 Dukes Street	72,026	-	72,026
131 Maxwell Lane A	5,567	-	5,567
131 Maxwell Lane B	2,565	-	2,565
131 Maxwell Lane C	2,565	-	2,565
2066 Central Ave. A	37,532	-	37,532
2066 Central Ave. B	82,807	-	82,807
	<u>\$ 229,415</u>	<u>\$ 64,825</u>	<u>\$ 294,240</u>

Note 7 – Land Held for Development

The following lots were held for development as of June 30, 2020 and 2019:

	<u>Number of Lots Remaining</u>	<u>2020</u>	<u>2019</u>
Clarks Hill Drive, St. George	7	\$ 43,911	\$ 43,911
Dukes St. Corner Lot	1	-	-
Dukes Street	8	-	-
Half Street, Summerville	1	24,900	24,900
Weber Road, Summerville	1	27,126	27,126
Cady Dr, Summerville	1	30,000	30,000
N. Hickory Street, Summerville	4	100,000	100,000
Maxwell Lane, Summerville	3	124,266	-
TreeLand Drive, Ridgeville	1	12,164	-
Dean Street, Summerville	3	121,353	-
Total		<u>\$ 483,720</u>	<u>\$ 225,937</u>

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 8 – Property and Equipment

Acquisitions of property and equipment greater than \$5,000 and all expenditures for repairs, maintenance, and betterments that materially prolong the useful lives of assets are capitalized at cost. Property and equipment, other than donated property, is stated at cost. Donated property is valued at fair market value at the date of the gift.

Depreciation is calculated using the straight-line method over the following estimated useful lives of the assets:

Buildings	15 to 40 years
Furniture and Equipment	3 to 5 years
Software	5 years
Vehicles	3 to 7 years

Property and Equipment consist of the following at June 30, 2020 and 2019:

	2020	2019
Land	\$ 241,770	\$ 241,770
Office and ReStore Building	1,598,129	1,588,978
Furniture and Equipment	18,165	8,966
Vehicles	54,916	54,916
	<u>\$ 1,912,980</u>	<u>\$ 1,894,630</u>
Less Accumulated Depreciation	<u>(507,452)</u>	<u>(453,357)</u>
Property and Equipment, Net	<u><u>\$ 1,405,528</u></u>	<u><u>\$ 1,441,273</u></u>

Depreciation charged to operation in fiscal years ended June 30, 2020 and 2019, was \$54,095 and \$49,448, respectively.

Note 9 – Homeowner Escrow

Beginning in the fiscal year 2014, the Habitat for Humanity Michigan Fund (HFHMF), now Affiliate Mortgage Services (AMS), serving as the escrow agent for DHFH, collects monthly payments from the homeowners for homeowners' insurance, termite bonds, and real property taxes. The escrow account balances and offsetting liability are not recorded in the financial statements. The homeowner escrow balances held by AMS as of June 30, 2020 and 2019, were \$42,807 and \$43,417, respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 10 – In-Kind Contributions

Donated materials and professional construction services are reflected as contributions in the accompanying financial statements at their estimated fair market values on the date of receipt. Recorded in-kind contributions consisted of the following for the fiscal years ended June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Construction Materials	\$ 14,013	\$ 34,380
Construction Services	<u>13,500</u>	<u>20,250</u>
Total	<u>\$ 27,513</u>	<u>\$ 54,630</u>

Many individuals volunteer their time and perform a variety of tasks that assist DHFH with specific programs, campaign solicitations, and various team assignments. These amounts are not recorded.

Note 11 – Notes Payable

Notes payable consist of the following as of June 30, 2020 and 2019:

	<u>2020</u>	<u>2019</u>
Suntrust Commercial Loan	\$ 582,357	\$ 613,188
108 Dean Street Mortgage	88,875	-
Less Current Maturities	<u>(50,660)</u>	<u>(41,365)</u>
Total Long Term Debt	<u>\$ 620,572</u>	<u>\$ 571,823</u>

In August 2018 DHFH renewed its commercial loan with Suntrust Bank, secured by the DHFH building. The Suntrust commercial loan is due in monthly installments of \$6,053 at an interest rate of 5.18%. The commercial loan matures in August 2030, at which time any remaining interest and principal amounts are due in full.

In April of 2020 DHFH purchased 108 Dean Street, a property held for development. The purchase of the property was secured with a 5 year mortgage consisting of monthly payments of \$980 at an interest rate of 5.5%. At the end of the 5 year term any remaining unpaid principal and interest are due in full.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 11 – Notes Payable - (continued)

The principal payment of all long-term debt is as follows for the fiscal year ended June 30, 2020:

2021	\$ 50,660
2022	52,838
2023	55,701
2024	58,723
2025	111,310
Thereafter	<u>291,340</u>
 Total	 <u>\$ 620,572</u>

Note 12 – Assets with Donor Restrictions

Assets with donor restrictions include those net assets whose use by DHFH has been donor-restricted by specified purpose or time limitations. Restricted net assets received and expended in the same year are classified as unrestricted. Assets with donor restrictions consist of the following as of fiscal years ended June 30, 2020 and 2019:

Purpose	Beginning Balance	Contributions	Distributions	Ending Balance
Land Capital Campaign:				
Weber Drive	\$ 26,800	\$ -	\$ -	\$ 26,800
Material In-kind Donations	-	14,013	(13,013)	1,000
Cash Contributions	-	11,950	(11,950)	
Grant Revenue	-	139,341	(139,341)	-
Build Donations	-	13,500	(13,500)	-
Total	<u>\$ 26,800</u>	<u>\$ 178,804</u>	<u>\$ (177,804)</u>	<u>\$ 27,800</u>

Note 13 – Related Party Transactions

Dorchester Habitat for Humanity is an affiliate of Habitat for Humanity International, Inc. (HFHI). Although HFHI assists with information resources, training, publications, and flow through contributions, DHFH is primarily and directly responsible for its operations. DHFH tithed and paid membership fees for the fiscal year ended June 30, 2020 and 2019, of \$7,600 and \$8,000, respectively.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 13 – Related Party Transactions - (Continued)

DHFH partnered with South Carolina Association of Habitat for Humanity Affiliates (SCAHA) to share costs related to fundraising and other operating activities. DHFH paid \$7,500 in membership fees to SCAHA for the fiscal year ended June 30, 2020.

Dorchester Habitat for Humanity participated in the local Trident Habitat for Humanity (THFH) joint fundraising and development initiative. During fiscal years ended 2020 and 2019, DHFH paid THFH \$3,812 and \$0 as their share of joint development and received \$400 and \$400 in grants or income for the respective years.

Contributions from DHFH board members and employees for June 30, 2020 and 2019, totaled \$6,620 and \$12,918, respectively.

Note 14 – Concentration of Credit Risk

DHFH places its cash with reputable financial institutions. Accounts held by banking institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. DHFH's total balance for accounts with SunTrust Bank was \$410,064 as of June 30, 2020. This balance exceeds the FDIC insured limit by \$160,064. Management does not consider this a significant credit risk.

DHFH's programs are concentrated in Dorchester County, South Carolina. The level of contributions, home sales, and collections of mortgages receivable may be affected by changes in this local economy. In addition to geographic concentration risk, management also notes the following risk factors that may affect DHFH's future ability to carry out its mission, including: DHFH's ongoing dependency on contributions as a significant portion of total operating revenue; the rate at which DHFH collects its long-term mortgages receivable versus the obligations presented by DHFH's short-term liabilities; risk of loss due to loan defaults; the continuing impacts of the Covid-19 pandemic; and the limited marketability of the mortgages receivable for resale.

Note 15 – Commitments and Contingencies

Collection of Second Mortgages

In addition to the non-interest bearing mortgage received from the sale of each home, DHFH may issue a contingent second mortgage. The second mortgages, issued by DHFH, represent the excess of the market value of the homes over the original loans at the date the second mortgages are executed. A mortgage default resulting in foreclosure will trigger the collection of the second mortgage. Except in the case of resale or refinance, early satisfaction of the first mortgage of a home in good standing will not usually result in the collection of the second mortgage obligation.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 15 – Commitments and Contingencies - (continued)

The conditions for release from a second mortgage are stated separately in the terms of the second mortgage, signed by the homeowner. Any second mortgage repayment is considered remote by DHFH, and therefore no receivable has been recorded in the current year financial statements. Amounts recognized as income on second mortgages were \$13,580 and \$0 for 2020 and 2019 respectively. The total amount of second mortgages recorded as of June 30, 2020, was \$1,765,586.

South Carolina Housing Trust

Fourteen contingent third mortgages are held by the South Carolina Housing Trust as a condition of grants provided to construct the homes and are amortized over a period up to twenty years.

Note 16 – Impairment of Note Receivable

In October of 2018 the owner of the 150 Clarks Hill Road property still under mortgage with DHFH passed away. Subsequently, the estate of the homeowner continued making payments on the property through February of 2019. After attempts to negotiate a payment plan with the estate failed, DHFH initiated foreclosure proceedings on the property in August of 2019. Management does not believe the remaining balance on the 150 Clarks Hill Road property is collectible. As there is no future expectation for receipt of payments on the mortgage an impairment loss under ASC 310-30 is recorded for the carrying value of the mortgage as of the date of the foreclosure filing; August 19, 2019. Total impairment losses from July 1, 2019 through June 30, 2020 were \$33,555.

Management expects to regain possession of the home through foreclosure proceedings. Management intends to sell the property either to another qualifying homeowner through its program or on the open market for the highest realizable offer. As of the report date the property is occupied by family of the deceased former homeowner and management reports the building to be in good condition. At the time of the audit report there is no estimate for the fair market value of the home and no value has been recorded for the anticipated recapture of foreclosed property.

DORCHESTER HABITAT FOR HUMANITY, INC.
NOTES TO THE FINANCIAL STATEMENTS
For the Fiscal Years Ended June 30, 2020 and 2019

Note 17 – Payroll Protection Program

On March 27, 2020, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law. One of the provisions of the CARES Act was the creation of the Paycheck Protection Program. The Paycheck Protection Program (PPP) is a business loan program funded by the US Federal Government designed to assist small businesses affected by COVID-19 to retain employees by offering low interest rate loans that may be partially or completely forgiven if the business meets certain criteria. In April of 2020, DHFH received \$110,900 in funds from the Paycheck Protection Program.

As of the report date management has not applied for forgiveness of the PPP loan. Management believes it has met all criteria to qualify for full forgiveness of the loan. Under accounting standard FASB ASC 958-605 DHFH has accounted for the PPP loan and its expected forgiveness as government grant revenue and recorded the proceeds from the loan on its statement of activity for the 2020 fiscal year.

Note 18 – Subsequent Events

In January of 2020, a widespread economic event related to the global spread of the COVID-19 virus caused uncertainty across nearly all sectors of the global economy. In addition to volatility in securities markets, etc., events related to COVID-19 have significantly impacted economic activity in general. While we are not able to estimate the direct impacts to the overall business activity of DHFH at this time it is possible that DHFH's operations and financial health could be affected by COVID-19 during 2020 and 2021.

Management has evaluated subsequent events through September 21, 2020, and has concluded no significant subsequent events except as described above meet the criteria of professional accounting standards to be recognized or not recognized, but disclosed, in the financial statements.

