

HABITAT FOR HUMANITY OF SUMMIT COUNTY, INC.  
(A NON-PROFIT ORGANIZATION)

FINANCIAL STATEMENTS  
WITH  
INDEPENDENT AUDITOR'S REPORT

March 31, 2016

## INDEX

	<u>Page</u>
Independent Auditor's Report	
Financial Statements:	
Statement of Financial Position	2 - 3
Statement of Changes in Net Assets	4
Statement of Activities	5 - 6
Statement of Functional Expenses	7 - 8
Statement of Cash Flows	9 - 10
Notes to Financial Statements	11 - 22



## INDEPENDENT AUDITOR'S REPORT

Board of Trustees  
Habitat for Humanity of Summit County, Inc.  
Akron, Ohio

We have audited the accompanying financial statements of Habitat for Humanity of Summit County, Inc. (a non-profit organization), which comprise the Statement of Financial Position as of March 31, 2016 and 2015, and the related Statements of Changes in Net Assets, 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*

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

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

### *Opinion*

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Summit County, Inc. as of March 31, 2016 and 2015, and the results of 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.

A handwritten signature in blue ink that reads 'Meaden &amp; Moore Ltd.'.

MEADEN & MOORE, LTD.  
Akron, Ohio  
August 16, 2016

STATEMENT OF FINANCIAL POSITION

Habitat for Humanity of Summit County, Inc.

	<b>March 31 2016</b>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 505,409	\$ 130,389	\$ 635,798
Mortgages receivable - net of discount	2,572,177	-	2,572,177
Inventory	249,673	-	249,673
Prepaid expenses and deposits	56,754	-	56,754
Construction in progress - net of discount	150,650	-	150,650
Land, buildings and equipment - net	2,022,352	-	2,022,352
Intangible assets	3,145	-	3,145
Land held for resale	364,511	-	364,511
Homes held for resale - net of discount	<u>58,118</u>	<u>-</u>	<u>58,118</u>
 Total Assets	 <u>\$ 5,982,789</u>	 <u>\$ 130,389</u>	 <u>\$ 6,113,178</u>
 <b>LIABILITIES:</b>			
Accounts payable	\$ 94,888	\$ -	\$ 94,888
Accrued expenses	75,481	-	75,481
Long-term debt	<u>460,973</u>	<u>-</u>	<u>460,973</u>
 Total Liabilities	 631,342	 -	 631,342
 <b>NET ASSETS:</b>	 <u>5,351,447</u>	 <u>130,389</u>	 <u>5,481,836</u>
 Total Liabilities and Net Assets	 <u>\$ 5,982,789</u>	 <u>\$ 130,389</u>	 <u>\$ 6,113,178</u>

See accompanying notes.

	March 31 2015		
	Unrestricted	Temporarily Restricted	Total
<b>ASSETS:</b>			
Cash and cash equivalents	\$ 435,446	\$ 190,451	\$ 625,897
Receivables:			
Mortgages receivable - net of discount	2,615,633	-	2,615,633
Pledges receivable	2,850	-	2,850
Inventory	253,934	-	253,934
Prepaid expenses and deposits	79,715	-	79,715
Homes under lease - net of discount	36,363	-	36,363
Land, buildings and equipment - net	2,001,202	-	2,001,202
Intangible assets	4,003	-	4,003
Land held for resale	401,228	-	401,228
	<u>5,830,374</u>	<u>190,451</u>	<u>6,020,825</u>
Total Assets	<u>\$ 5,830,374</u>	<u>\$ 190,451</u>	<u>\$ 6,020,825</u>
<b>LIABILITIES:</b>			
Accounts payable	\$ 55,668	\$ -	\$ 55,668
Accrued expenses	81,300	-	81,300
Long-term debt	624,976	-	624,976
	<u>761,944</u>	<u>-</u>	<u>761,944</u>
Total Liabilities	<u>761,944</u>	<u>-</u>	<u>761,944</u>
<b>NET ASSETS</b>	<u>5,068,430</u>	<u>190,451</u>	<u>5,258,881</u>
Total Liabilities and Net Assets	<u>\$ 5,830,374</u>	<u>\$ 190,451</u>	<u>\$ 6,020,825</u>

STATEMENT OF CHANGES IN NET ASSETS

Habitat for Humanity of Summit County, Inc.

For the Years Ended March 31, 2016 and 2015

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets - March 31, 2014	\$ 4,901,073	\$ 24,380	\$ 4,925,453
Change in net assets - 2015	<u>167,357</u>	<u>166,071</u>	<u>333,428</u>
Net Assets - March 31, 2015	5,068,430	190,451	5,258,881
Change in net assets - 2016	<u>283,017</u>	<u>(60,062)</u>	<u>222,955</u>
Net Assets - March 31, 2016	<u>\$ 5,351,447</u>	<u>\$ 130,389</u>	<u>\$ 5,481,836</u>

*See accompanying notes.*

STATEMENT OF ACTIVITIES

Habitat for Humanity of Summit County, Inc.

Years Ended March 31

	<b>2016</b>		
	<b>Unrestricted</b>	<b>Temporarily Restricted</b>	<b>Total</b>
<b>OPERATING SUPPORT AND REVENUE:</b>			
Contributions and grants	\$ 615,932	\$ 336,903	\$ 952,835
Special events - net	41,678	-	41,678
Mortgages and loans issued to homeowners	400,105	-	400,105
Imputed interest from discounted mortgages	184,551	-	184,551
Sales of merchandise - net	1,223,548	-	1,223,548
Loss on sale of homes and lots	(21,519)	-	(21,519)
Investment income	169	-	169
Other income	15,596	-	15,596
	<u>2,460,060</u>	<u>336,903</u>	<u>2,796,963</u>
<b>Total Operating Support and Revenue</b>			
<b>Net Assets Released from Restrictions:</b>			
Satisfaction of program restrictions	<u>396,965</u>	<u>(396,965)</u>	<u>-</u>
	<u>2,857,025</u>	<u>(60,062)</u>	<u>2,796,963</u>
<b>EXPENSES:</b>			
Program services	1,965,709	-	1,965,709
General and administrative	448,587	-	448,587
Fundraising and development	159,712	-	159,712
	<u>2,574,008</u>	<u>-</u>	<u>2,574,008</u>
<b>Total Expenses</b>			
<b>Change in Net Assets</b>	<u>\$ 283,017</u>	<u>\$ (60,062)</u>	<u>\$ 222,955</u>

See accompanying notes.

2015		
Unrestricted	Temporarily Restricted	Total
\$ 717,011	\$ 335,741	\$ 1,052,752
61,199	-	61,199
1,047,313	-	1,047,313
169,952	-	169,952
1,021,202	-	1,021,202
(23,847)	-	(23,847)
233	-	233
53,456	-	53,456
3,046,519	335,741	3,382,260
169,670	(169,670)	-
3,216,189	166,071	3,382,260
2,501,343	-	2,501,343
410,413	-	410,413
137,076	-	137,076
3,048,832	-	3,048,832
<u>\$ 167,357</u>	<u>\$ 166,071</u>	<u>\$ 333,428</u>



STATEMENT OF FUNCTIONAL EXPENSES

Habitat for Humanity of Summit County, Inc.

Years Ended March 31

	<b>2016</b>			
	<b>Program</b>	<b>General and Administrative</b>	<b>Fundraising and Development</b>	<b>Total</b>
Cost of homes	\$ 654,275	\$ -	\$ -	\$ 654,275
Discount on mortgages issued, including anticipated discount on construction in progress	383,491	-	-	383,491
Salaries and wages	507,182	151,223	93,199	751,604
Payroll taxes	53,480	15,946	9,827	79,253
Employee benefits	98,820	29,465	18,159	146,444
Professional and contract services	26,226	26,223	14,195	66,644
Rent	7,861	7,860	-	15,721
Utilities	39,260	39,259	-	78,519
Repairs and maintenance	17,175	17,175	-	34,350
Equipment expenses	2,680	2,679	-	5,359
Property taxes	5,017	5,016	-	10,033
Depreciation and amortization	44,616	44,616	-	89,232
Office supplies	20,923	20,922	-	41,845
Printing and publications	3,096	3,095	6,192	12,383
Postage	3,797	3,796	-	7,593
Insurance	22,648	22,648	-	45,296
Advertising and marketing	9,070	9,069	18,140	36,279
Transportation and travel	24,739	8,246	-	32,985
Conferences and meetings	1,165	1,164	-	2,329
Bank service charges	8,545	8,544	-	17,089
Interest expense	12,500	12,499	-	24,999
Miscellaneous operating expenses	19,143	19,142	-	38,285
<b>Total Expense</b>	<b>\$ 1,965,709</b>	<b>\$ 448,587</b>	<b>\$ 159,712</b>	<b>\$ 2,574,008</b>

See accompanying notes.

2015

Program	General and Administrative	Fundraising and Development	Total
\$ 1,293,497	\$ -	\$ -	\$ 1,293,497
374,317	-	-	374,317
425,871	126,979	78,257	631,107
60,507	18,040	11,119	89,666
91,883	27,397	16,884	136,164
20,190	20,187	10,928	51,305
7,659	7,659	-	15,318
39,617	39,616	-	79,233
17,856	17,855	-	35,711
1,851	1,851	-	3,702
3,771	3,771	-	7,542
37,508	37,508	-	75,016
3,588	3,587	-	7,175
2,528	2,527	5,056	10,111
16,175	16,174	-	32,349
33,549	33,548	-	67,097
7,416	7,415	14,832	29,663
25,888	8,629	-	34,517
1,415	1,414	-	2,829
7,122	7,121	-	14,243
16,709	16,709	-	33,418
12,426	12,426	-	24,852
<u>\$ 2,501,343</u>	<u>\$ 410,413</u>	<u>\$ 137,076</u>	<u>\$ 3,048,832</u>

## STATEMENT OF CASH FLOWS

Habitat for Humanity of Summit County, Inc.

	Year Ended March 31	
	<u>2016</u>	<u>2015</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Cash received from contributors	\$ 2,339,539	\$ 2,337,144
Interest received	169	233
Cash paid to suppliers and employees	(2,382,627)	(2,471,725)
Interest paid	<u>(24,999)</u>	<u>(33,418)</u>
 Cash Used in Operating Activities	 <b>(67,918)</b>	 (167,766)
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Proceeds on sale of houses	23,488	38,554
Capital expenditures	(126,710)	(22,760)
Land purchased	-	(8,275)
Mortgage and loan payments received	<u>345,044</u>	<u>334,739</u>
 Cash Provided by Investing Activities	 <b>241,822</b>	 342,258
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Repayment of long-term debt	<u>(164,003)</u>	<u>(189,880)</u>
 Increase (Decrease) in Cash and Cash Equivalents	 <b>9,901</b>	 (15,388)
 Cash and Cash Equivalents - Beginning of the Year	 <u>625,897</u>	 <u>641,285</u>
 Cash and Cash Equivalents - End of the Year	 <u><b>\$ 635,798</b></u>	 <u>\$ 625,897</u>

*See accompanying notes.*

	Year Ended March 31	
	<u>2016</u>	<u>2015</u>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:</b>		
Change in Net Assets	\$ 222,955	\$ 333,428
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	88,374	74,158
Amortization of intangibles	858	858
Mortgage loan discount amortization	(184,551)	(169,952)
Loss on sale of houses and lots	21,519	23,847
Donated land	(60,000)	-
Mortgages and loans issued to homeowners	(400,105)	(1,047,313)
Discount on mortgages and leases issued	166,202	574,548
Discount on construction in progress	156,800	(64,840)
Discount on homes held for resale	60,489	-
Increase (Decrease) in Cash from Changes in:		
Pledge receivable	2,850	2,430
Construction in progress	(193,547)	211,678
Inventory	4,261	(23,007)
Prepaid expenses and deposits	12,576	(19,727)
Accounts payable	39,220	(73,209)
Accrued expenses	(5,819)	9,335
	<u>(290,873)</u>	<u>(501,194)</u>
Cash Used in Operating Activities	<u>\$ (67,918)</u>	<u>\$ (167,766)</u>
<b>Supplemental Schedule of Noncash Investing and Financing Activities:</b>		
Mortgage receivable forgiven on redeemed	<u>\$ 34,012</u>	<u>\$ 22,630</u>
Land transferred to construction in progress	<u>\$ 113,903</u>	<u>\$ 84,540</u>
Leased homes transferred to mortgage	<u>\$ -</u>	<u>\$ 130,082</u>
Leased homes transferred to homes held for resale	<u>\$ 74,210</u>	<u>\$ -</u>
Deposits transferred to homes held for resale	<u>\$ 10,385</u>	<u>\$ -</u>

## NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

### 1 Summary of Significant Accounting Policies

#### *Nature of the Organization:*

Habitat for Humanity of Summit County, Inc. ("HFHSC" or "Organization"), a non-profit organization, is an affiliate of Habitat for Humanity International, Inc. ("International"), an ecumenical Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and make decent shelter a matter of conscience with people everywhere. Although International assists with information resources, training, publications, prayer support and in other ways, HFHSC is primarily and directly responsible for its own operations.

HFHSC, through its many volunteers, constructs affordable housing and transfers the homes to qualified families at cost by providing non-interest bearing mortgage loans. HFHSC is primarily responsible for the legal, organizational, fundraising, family selection and nurture, financial and construction aspects of the work.

The Organization provides all homeowners in their program with financial and homeowner education classes on a variety of subjects in order to help ensure responsible and successful homeownership through the program, thereby minimizing the number of foreclosures produced.

HFHSC operates several other programs including a home repair program for exterior home repair to homeowners of similar qualifications to its core program of building new construction homes. Home repairs include windows, doors, siding, shutters, gutters, downspouts, painting, landscaping and porch repairs. The homeowner signs a non-interest bearing promissory note for the cost of materials used in the home repair.

Additionally, HFHSC operates a deconstruction program throughout Summit County on mostly vacant and abandoned homes that are slated for demolition. Some private projects are also completed through an indemnity waiver by the property owner. The deconstruction program reclaims items that are reusable, recyclable, or for resale to generate revenue to support its core programs.

The Organization also operates a retail store under the name Habitat ReStore ("ReStore"). The store is open to the public and accepts donations of new and gently used building materials, furniture, and appliances that are sold to the public or used in the construction of Habitat homes. All revenue from the sale of items are used toward the expansion of the home building and repairing programs.

#### *Use of Estimates:*

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

#### *Classification of Net Assets:*

In accordance with U.S. GAAP, contributions are classified as unrestricted, temporarily restricted and permanently restricted based on donor specifications.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

**1 Summary of Significant Accounting Policies, Continued**

***Classification of Net Assets, Continued:***

Assets, liabilities, revenue and gains are presented under these classifications. Designations by the Board, while separately stated, are considered unrestricted.

Grants and contributions received with donor-imposed restrictions are recorded as unrestricted if the restrictions are expected to be met within the same period. This policy is also followed for investment income received with donor-imposed restrictions.

No endowment funds, as defined by FASB ASC 958, are held by the Organization.

***Cash and Cash Equivalents:***

For the purposes of the Statement of Cash Flows, HFHSC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Temporarily uninvested cash in investment accounts is considered an investment rather than a cash equivalent.

At times during the year, HFHSC maintained funds on deposit at its banks in excess of FDIC insurance limits.

***Mortgage Receivable and Discount:***

As homes are transferred to qualified families, HFHSC allows qualified families to purchase homes at cost subject to mortgages which bear no interest. These mortgages are for terms of 15 to 30 years. The discount of the mortgages is required to reflect economic benefit of the zero-interest-mortgage to the qualified families. The discount recorded has been estimated based on the prevailing interest, as determined by International, in the period of origination and payment terms defined in the mortgage. A portion of the discount is amortized on a straight-line basis as interest income each year the mortgage is outstanding.

	2016			2015
	Total	Current Portion	Long-Term Portion	Total
Mortgage receivable - gross	\$ 5,509,456	\$ 340,938	\$ 5,168,518	\$ 5,533,414
Discount	<u>(2,937,279)</u>	<u>(173,878)</u>	<u>(2,763,401)</u>	<u>(2,917,781)</u>
Mortgage receivable - net	<u>\$ 2,572,177</u>	<u>\$ 167,060</u>	<u>\$ 2,405,117</u>	<u>\$ 2,615,633</u>

During the year ended March 31, 2016, 4 homes were transferred to qualified families recognizing \$376,100 of revenue from mortgage transfers. During the year ended March 31, 2015, 12 homes were transferred to qualified families recognizing \$1,027,000 of revenue from mortgage transfers.

No allowance for bad debts is recorded because HFHSC feels all costs would be recovered through the resale of the house in the event of foreclosure. At March 31, 2016, there were 3 mortgages in foreclosure totaling \$207,230 with an unamortized discount of \$86,883. At March 31, 2015, there were 2 mortgage in foreclosure totaling \$65,458 with an unamortized discount of \$33,856.

## NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

### 1 Summary of Significant Accounting Policies, Continued

#### *Fair Value Measurements:*

As defined in FASB ASC 820, "Fair Value Measurements", fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable firm inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs.

Based on the examination of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values.

Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

**Level 1:** Inputs to the valuation methodology are unadjusted quoted market 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 assets 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.

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

The following is a description of the valuation methodology used for land held for resale and homes held for resale measured at fair value, which are classified as Level 2.

#### *Land Held for Resale:*

Property and land donated to HFHSC for the purpose of resale is recorded at the locality's assessed value for property tax purposes, which approximates fair market value.

There were 25 lots totaling \$364,511 (2016) and 31 lots totaling \$401,228 (2015).

#### *Homes Held for Resale:*

Homes held for resale are carried on the books as assets at the mortgage value or cost, less the unamortized discount. There was 2 homes for resale totaling \$58,118 in 2016. There were no homes held for resale in 2015.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

**1 Summary of Significant Accounting Policies, Continued**

***Escrow Liability:***

The Organization collects escrow amounts from qualified families for the payment of taxes and insurance. These amounts are held in escrow pending the payment of expenses relating to the funds received.

Funds held in escrow at year-end were \$66,041 (2016) and \$68,809 (2015). These amounts are included in accrued expenses.

***Inventories:***

Inventories consist of purchased and donated raw materials used in the construction of partner family homes. The value of in-kind donations included in inventory are recorded at an estimated fair market value, as determined by management, at the time of receipt.

ReStore inventories consist of 100% contributed inventory. The International guidelines historically have recommended that no valuation be placed on goods received from the public for processing and sale, other than the related revenue at the time of sale to the public for their internal reporting. However, for generally accepted accounting principles, it is acknowledged that this inventory does have some value and more current guidance have outlined approaches that may be considered. Management calculates an estimated value of inventory based on a retail value method incorporating inventory turnover and retail value assumptions. Inventory consists of:

	<u>2016</u>	<u>2015</u>
Donated inventory	\$ 240,062	\$ 246,602
Purchased inventory	<u>9,611</u>	<u>7,332</u>
Total inventory	<u>\$ 249,673</u>	<u>\$ 253,934</u>

***Revenue Recognition:***

Contributions and grants are recognized when awarded as unrestricted, temporarily restricted or permanently restricted in accordance with donor specifications. When a restriction expires through accomplishment of purpose or passage of time, the restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

***Donated Goods and Services and Donated Land:***

HFHSC receives various donated goods and services each year. The value of in-kind donations are recorded at an estimated fair market value, as determined by management, at the time of receipt of the goods or services. No amount is recorded if no objective basis is available to measure the value of the good or service, as determined by management.

Donated goods and services and donated land, included in contributions and grants revenue, was \$95,074 (2016) and \$267,048 (2015).



NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

**1 Summary of Significant Accounting Policies, Continued**

***Construction in Progress:***

Costs incurred relating to homes under construction at the end of each year are recorded as construction in progress. Construction costs include the cost of materials and labor purchased by HFHSC. Donated materials are recorded based on their estimated value at the time of receipt. No amounts have been recorded in construction in progress for donated services, in as much as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the construction of the homes.

	<u>2016</u>		<u>2015</u>	
Homes Under Construction - Beginning of Year	-	\$ -	2	\$ 127,139
Additional costs incurred on beginning homes	-	-	-	119,744
Homes started during the year	<b>6</b>	<b>558,797</b>	6	622,202
Homes transferred during the year	<u>(2)</u>	<u>(251,347)</u>	<u>(8)</u>	<u>(869,085)</u>
Homes Under Construction - End of Year	<u><b>4</b></u>	<u><b>307,450</b></u>	<u>-</u>	<u>\$ -</u>
Discount		<u><b>(156,800)</b></u>		
Construction in progress - net		<u><u><b>\$ 150,650</b></u></u>		

***Anticipated Discount on Future Home Builds:***

Discounts are recognized on homes that HFHSC has committed to build for qualified families as costs are incurred. The value of construction in progress is discounted by the average discounted value of mortgages issued (51%).

***Homes Under Lease:***

Homes under lease relates to completed homes occupied by qualified families under lease terms for a period of time before the actual sale of the home. Lease payments received by HFHSC are credited against the purchase price of the home. This discount is recorded to reflect the economic benefit of the zero-interest-mortgage to the purchaser.

	<u>2016</u>		<u>2015</u>	
	<u><b>0 Homes</b></u>		<u>1 Home</u>	
Lease value of home - gross	\$	-	\$	74,211
Discount		-		<u>(37,848)</u>
		<u><u><b>\$ -</b></u></u>		<u><u><b>\$ 36,363</b></u></u>

***Property and Equipment:***

Property and equipment purchased by HFHSC are carried at cost. Donated property and equipment are recorded at estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to expense as incurred. Additions and betterments are capitalized.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

**1 Summary of Significant Accounting Policies, Continued**

*Property and Equipment, Continued:*

The cost and related accumulated depreciation of properties sold or otherwise disposed of are removed from the accounts and any gain or loss is reflected in the current year's activities.

	<u>2016</u>	<u>2015</u>
Land, buildings and improvements	\$ 2,166,512	\$ 2,144,775
Equipment	13,242	13,242
Office furniture	107,529	102,806
Vehicles	<u>197,704</u>	<u>122,140</u>
	2,484,987	2,382,963
Less: Accumulated depreciation	<u>(462,635)</u>	<u>(381,761)</u>
	<u>\$ 2,022,352</u>	<u>\$ 2,001,202</u>
Depreciation Expense	<u>\$ 88,374</u>	<u>\$ 74,158</u>

The Organization primarily follows the straight-line method of depreciation utilizing the following lives:

<u>Class</u>	<u>Years</u>
Buildings and improvements	5 - 39
Equipment	5 - 10
Office furniture	3 - 10
Vehicles	5

*Functional Expense Allocations*

Expenses are charged to functional areas based on specific-identification when possible. Expenses that cannot be specifically identified to a function are allocated to the functional areas based on factors such as direct relationship of expense, time spent by employees and square footage of space used for various programs.

*Program Services:*

HFHSC strives to eliminate sub-standard housing through life-skill and homeowner education programs, neighborhood development and raising awareness of housing issues and solutions. HFHSC constructs affordable housing, provides homeowner education to its partner families and transfers the homes to qualified families at cost by providing non-interest bearing mortgage loans. The success of the Organization is ensured by family educational programs, volunteer participation and support of the donor community. These homes serve as catalysts for comprehensive neighborhood development projects in neighborhoods in need.

## NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

### 1 Summary of Significant Accounting Policies, Continued

#### *Functional Expense Allocations, Continued*

##### Program Services, Continued:

In addition, the ReStore program's primary goal is to raise money for HFHSC through sales revenue, while also reducing the amount of building materials deposited into landfills. Individuals, as well as construction companies, donate new or used unwanted building materials, keeping them from landfills; and local contractors and do-it-yourselfers then have the option to purchase materials and products at a reduced cost. Revenue from the home repair program and deconstruction projects are reinvested into program services. All revenues go back to HFHSC to support home building programs.

##### General and Administrative:

Expenses incurred in the day-to-day operations of HFHSC.

##### Fundraising and Development:

Expenses incurred in raising additional funds for HFHSC.

##### ***Income Tax Status:***

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption granted by International and operates as a public charity. The Organization is required to operate in conformity with the Code to maintain its tax-exempt status.

##### ***Accounting for Uncertainty in Income Taxes:***

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by the Organization and recognize a tax liability if the Organization has taken certain tax positions that more-likely-than-not would not be sustained upon examination by applicable taxing authorities. The Organization would recognize interest and penalties accrued, if any, related to unrecognized tax uncertainties in income tax expense. Management has analyzed tax positions taken and has concluded that there are no material uncertain tax positions taken, or expected to be taken, that would require recognition of a liability or disclosure in the financial statements.

##### ***Reclassification:***

Certain prior year amounts have been reclassified to conform with the current year presentation.

##### ***Subsequent Events:***

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements. Subsequent events have been evaluated through August 16, 2016, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

**2 Long-Term Debt**

	<b>Current Portion</b>	<b>Total</b>	
	<b>2016</b>	<b>2016</b>	<b>2015</b>
<p>Note payable was entered into by the Organization on January 18, 2013, amounting to \$301,000. Principal and interest payments are due monthly in the amount of \$4,178. The note bears interest at 4.40% and matures on January 18, 2020. The note is secured by the related property.</p>	\$ 43,142	\$ 176,337	\$ 217,578
<p>Note payable was entered into by the Organization and the City of Akron for sewer and water lines on August 16, 2012, amounting to \$13,529. Principal and interest payments are due monthly in the amount of \$147. The note bears interest at 5.38% and matures in October 2022. The City reserves the right to terminate sewer and water service in the event of default of the note.</p>	1,270	9,763	10,966
<p>Note payable was entered into by the Organization and the City of Akron for sewer and water lines on August 16, 2012, amounting to \$13,529. Principal and interest payments are due monthly in the amount of \$147. The note bears interest at 5.38% and matures in October 2022. The City reserves the right to terminate sewer and water service in the event of default of the note.</p>	1,270	9,762	10,966
<p>Note payable was entered into by the Organization on September 13, 2012, amounting to \$271,893. Principal and interest payments are due quarterly in the amount of \$14,609. The note bears interest at 4.50% and matures on December 31, 2017. The note is secured by mortgage receivables totaling \$1,109,908 at March 31, 2016.</p>	54,954	97,814	150,363

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

**2 Long-Term Debt, Continued**

	<u>Current Portion</u>	<u>Total</u>	
	<u>2016</u>	<u>2016</u>	<u>2015</u>
Note payable with Habitat for Humanity of Ohio in the amount of \$150,000. Interest only payments at a rate of 4.00% are due quarterly with the unpaid principal balance and any accrued interest due on June 22, 2017. The note is secured by mortgage receivables amounting to \$154,587 at March 31, 2016.	-	<b>150,000</b>	150,000
Note payable was entered into by the Organization on April 30, 2009, amounting to \$407,800. Principal and interest payments are due quarterly in the amount of \$17,528. The note bears interest at 5.30% and was paid off June 1, 2016. The note is secured by mortgage receivables totaling \$902,095 at March 31, 2016.	<b>17,297</b>	<b>17,297</b>	84,261
Note payable was entered into by the Organization on September 30, 2010, amounting to \$7,473. Principal and interest payments were due monthly in the amount of \$143. The loan bore interest at 5.59% and was paid off in September 2015. The note was secured by the related vehicle.	-	-	842
	<u><b>\$ 117,933</b></u>	<u><b>460,973</b></u>	<u>624,976</u>
Less: Current Portion		<u><b>117,933</b></u>	<u>314,004</u>
Total Long-Term Portion		<u><b>\$ 343,040</b></u>	<u>\$ 310,972</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

**2 Long-Term Debt, Continued**

Maturities of long-term debt are as follows:

	<u>Total</u>
2017	\$ 117,933
2018	240,410
2019	49,988
2020	43,911
2021	3,148
Thereafter	<u>5,583</u>
Total	<u>\$ 460,973</u>

**3 Leases**

The Organization has various lease agreements for office equipment through March 2021. Rent expense was \$15,721 (2016) and \$15,318 (2015). Minimum lease payments due under the operating lease obligations are due as follows:

2017	\$ 14,112
2018	13,854
2019	13,080
2020	13,080
2021	<u>13,080</u>
Total	<u>\$ 67,206</u>

**4 Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following:

	<u>2016</u>			
	<u>Beginning</u>	<u>Contributions</u>	<u>Net Assets</u>	<u>Ending</u>
	<u>Net Assets</u>	<u>and</u>	<u>Released</u>	<u>Net Assets</u>
		<u>Investment</u>	<u>from</u>	
		<u>Income</u>	<u>Restriction</u>	<u>Net Assets</u>
Operating support for Adopt a House	<u>\$ 190,451</u>	<u>\$ 336,903</u>	<u>\$ (396,965)</u>	<u>\$ 130,389</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

**4 Temporarily Restricted Net Assets**

	2015			
	Beginning Net Assets	Contributions and Investment Income	Net Assets Released from Restriction	Ending Net Assets
Operating support for Adopt a House	\$ 24,380	\$ 335,741	\$ (169,670)	\$ 190,451

**5 Related Party Transactions**

HFHSC is an affiliate of International. As an affiliate, HFHSC is encouraged to contribute a portion of its revenues to International for use in carrying out its mission around the world.

HFHSC contributions to International amounted to \$4,000 (2016) and \$4,000 (2015).

HFHSC is affiliated with Habitat for Humanity of Ohio ("HFHSC Ohio"). Through the affiliation, HFHSC is encouraged to support Habitat for Humanity of Ohio in carrying out its mission throughout the state.

HFHSC contributions to HFHSC Ohio amounted to \$1,550 (2016) and \$1,500 (2015).

International assesses an affiliate branding fee to all of the affiliates. HFHSC's branding fees amounted to \$15,000 (2016) and \$10,000 (2015).

**6 Significant Estimates**

The value of in-kind donations are recorded at an estimated fair market value, as determined by management, at the time of receipt.

**7 Conditional Grants**

HFHSC received a conditional grant from Summit County ("County") for the Home Investment Partnership Program ("HOME"). A total amount of \$120,000 (2016) and \$193,500 (2015) is contingent upon the new construction of homes and sale to qualified low to moderate income individuals within the County. Revenue is recognized as the conditions are met. HFHSC has recognized revenue of \$129,000 (2016) and \$112,044 (2015). Any revenue not recognized during the year may be carried over to the following year upon approval by the County.

HFHSC has a second conditional grant with the City of Akron ("City") under the same HOME program. This grant is awarded annually and allows up to \$120,000 (2016) and \$160,000 (2015) of revenue for new construction homes and sale to qualified low income families in the City of Akron. Revenue is recognized as conditions are met. HFHSC has recognized \$140,000 (2016) and \$120,000 (2015) of revenue from this grant. Any revenue not recognized during the year may be carried over to the following year upon approval by the City.

## NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

### **7 Conditional Grants, Continued**

HFHSC has a third conditional grant with the City of Akron to implement a Deconstruction Project. A total amount of \$55,000 (2016) and \$50,000 (2015) is contingent upon assignment of properties to be deconstructed by the City of Akron's Planning Department and completion of the deconstruction. HFHSC has recognized revenue of \$44,000 (2016) and \$48,000 (2015).

HFHSC has a fourth conditional grant with the Summit County Land Reutilization Corporation ("SCLRC"). A total amount of \$55,000 was awarded in 2016 contingent upon deconstruction services as assigned by SCLRC. As of March 31, 2016, approximately \$16,000 of revenue has been recognized under this grant.