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104 South Sugar St.
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1310 Market Street, Suite 300
Wheeling, WV 26003
304.232.1358



**HABITAT FOR HUMANITY OF
SOUTHEAST OHIO
ATHENS COUNTY
Regular Audit
For the Year Ended June 30, 2016**

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HABITAT FOR HUMANITY OF SOUTHEAST OHIO

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INDEPENDENT AUDITOR'S REPORT

July 7, 2017

Habitat for Humanity of Southeast Ohio
525 West Union Street
Athens, Ohio 45701

To the Board of Directors:

Report on the Financial Statements

We have audited the accompanying financial statements of **Habitat for Humanity of Southeast Ohio** (a non-profit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows for the 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.

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

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

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Southeast Ohio as of June 30, 2016, 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.

Perry & Associates CPAs A.C.

Perry & Associates
Certified Public Accountants, A.C.
Marietta, Ohio

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2016

ASSETS

CURRENT ASSETS:	
Cash	\$ 362,175
Cash - temporarily restricted	65,672
Cash held in escrow	24,741
Grants receivable	32,500
Current portion of mortgage loans receivable	87,172
Construction in progress	210,405
Inventory	2,503
Other receivables	300
Prepaid expenses	<u>2,841</u>
 TOTAL CURRENT ASSETS	 <u>788,309</u>
NON-CURRENT ASSETS:	
Non-interest bearing residential mortgage loans, net of unamortized discounts of \$1,059,732, less current portion	833,751
Property and equipment, net	1,175,112
Land for future construction	<u>100,251</u>
 TOTAL NON-CURRENT ASSETS	 <u>2,109,114</u>
 TOTAL ASSETS	 <u>\$ 2,897,423</u>

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES:	
Accounts payable	\$ 24,804
Escrow deposits	18,520
Accrued and withheld taxes	8,515
Accrued interest	2,126
Amount due to employees	11,283
Amount due to affiliates	294
Current portion of long-term debt	<u>24,321</u>
 TOTAL CURRENT LIABILITIES	 89,863
 LONG-TERM DEBT, less current portion	 <u>806,916</u>
 TOTAL LIABILITIES	 <u>896,779</u>
NET ASSETS:	
Unrestricted	1,934,972
Temporarily restricted	<u>65,672</u>
 TOTAL NET ASSETS	 <u>2,000,644</u>
 TOTAL LIABILITIES AND NET ASSETS	 <u>\$ 2,897,423</u>

The accompanying notes are an integral part of these financial statements

**HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016**

	Unrestricted	Temporarily Restricted	Total
REVENUES, GAINS AND OTHER SUPPORT:			
Donations, net of related expenses	\$ 253,004	\$ -	\$ 253,004
Grants	378,746	-	378,746
Coalition Contributions, net of related expenses	83,787	-	83,787
Interest earned	171	-	171
Sales ReStore	443,773	-	443,773
Home sales	401,000	-	401,000
Construction income	475	-	475
Support in-kind	470,695	-	470,695
Other revenue	237	-	237
Mortgage discount amortization	82,645	-	82,645
Net assets released from restrictions	10,423	(10,423)	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	2,124,956	(10,423)	2,114,533
EXPENSES:			
Housing	865,200	-	865,200
ReStore	782,165	-	782,165
Fundraising	26,304	-	26,304
Management and general	108,363	-	108,363
TOTAL EXPENSES	1,782,032	-	1,782,032
CHANGES IN NET ASSETS	342,924	(10,423)	332,501
NET ASSETS, BEGINNING OF YEAR	1,592,048	76,095	1,668,143
NET ASSETS, END OF YEAR	\$ 1,934,972	\$ 65,672	\$ 2,000,644

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Housing	ReStore	Fundraising	Management and General	Total
Salaries	\$ 156,556	174,379	\$ -	\$ 36,535	\$ 367,470
Payroll taxes and employee benefits	21,276	23,033	-	5,895	50,204
Total Compensation	177,832	197,412	-	42,430	417,674
Cost of sales	355,137	22,272	-	-	377,409
Depreciation	-	21,353	-	9,359	30,712
Fundraising expense	-	-	2,911	-	2,911
In-kind Expense	45,948	420,398	-	-	466,346
Insurance	4,822	10,694	-	2,969	18,485
Interest expense	3,139	33,855	-	-	36,994
International mission support	6,739	-	-	-	6,739
Mortgage discounts	219,737	-	-	-	219,737
Office supplies and expenses	10,944	10,365	-	9,094	30,403
Printing	1,996	337	-	816	3,149
Professional fees	14,405	9,192	-	28,318	51,915
Publicity and advertising	3,314	5,771	23,393	3,032	35,510
Rent	-	175	-	450	625
Repairs and maintenance	8,785	8,048	-	665	17,498
Taxes, insurance, and fees	7,846	9,694	-	2,077	19,617
Travel and meetings	2,036	952	-	4,801	7,789
Utilities	173	22,626	-	2,653	25,452
Vehicle expense	2,347	9,021	-	1,699	13,067
Total Functional Expenses	\$ 865,200	\$ 782,165	\$ 26,304	\$ 108,363	\$ 1,782,032

The accompanying notes are an integral part of these financial statements

**HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM (FOR) OPERATING ACTIVITIES:

Change in Net Assets	\$ 332,501
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:	
Depreciation	30,712
Mortgage discount amortization	(82,645)
Mortgage discount expense	219,737
Changes in:	
Cash - temporarily restricted	(27,095)
Cash held in escrow	(10,367)
Mortgages receivable	(227,102)
Grants receivable	(32,500)
Other receivables	(300)
Inventory	(1,684)
Prepaid expenses and deposits	(1,988)
Construction in progress	(66,243)
Land for future construction	(11,506)
Accounts payable	18,740
Accrued taxes and expenses	3,933
Escrow deposits	5,959
Total adjustments	<u>(182,349)</u>
CASH PROVIDED BY OPERATING ACTIVITIES	<u>150,152</u>

CASH FLOWS FROM (FOR) INVESTING ACTIVITIES:

Purchase of fixed assets	(185,197)
CASH PROVIDED BY INVESTING ACTIVITIES	<u>(185,197)</u>

CASH FLOWS FROM (FOR) FINANCING ACTIVITIES:

Proceeds of long-term debt	470,000
Payments on long-term debt	(342,430)
CASH (USED) BY FINANCING ACTIVITIES	<u>127,570</u>

INCREASE IN CASH AND CASH EQUIVALENTS	92,525
CASH AND CASH EQUIVALENTS TO BEGIN THE YEAR	<u>269,650</u>
CASH AND CASH EQUIVALENTS TO END THE YEAR	<u><u>\$ 362,175</u></u>

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

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF CASH FLOWS (continued)
FOR THE YEAR ENDED JUNE 30, 2016

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:

SCHEDULE OF NON-CASH TRANSACTIONS:

In-kind support for materials and labor in construction	<u>\$ 45,948</u>
In-kind donations of goods for sale	<u>\$ 420,398</u>

SCHEDULE OF INTEREST AND TAXES
PAID IN CASH:

Interest expense	<u>\$ 35,139</u>
Income tax	<u>NONE</u>

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

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016

Note A – Summary of Significant Accounting Policies

Nature of Activity – Habitat for Humanity of Southeast Ohio (the Organization) is a faith-based organization with the mission of eliminating substandard housing in six counties throughout Southeast Ohio. The primary activity of the Organization is the development of affordable, single-family homes through the use of donated funds and volunteer labor. The homes are sold with zero-interest mortgages to eligible families. This provides increased home ownership opportunities to qualifying residents of these counties.

The Organization also operates two ReStore facilities, one in Athens and one in Zanesville, Ohio. The ReStore operations are home improvement stores that sell new and gently used furniture, home accessories, building materials, and appliances to the public.

Basis of Accounting – The Organization prepares its financial statement on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Financial Statement Presentation – The Organization has adopted Financial Accounting Standards Board Accounting Standards Codification (ASC) No. 958-210, *Presentation of Financial Statements*. Under ASC 958-210, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Estimates – The preparation of financial statements on the accrual basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Equivalents – For the purpose of the Statement of Cash Flows, cash and equivalents include all highly liquid investment instruments with original maturities of three months or less.

Temporarily Restricted Cash – The temporarily restricted cash is comprised of cash provided by the various project affinity groups (coalitions) for home construction costs. These coalitions have been formed in order to coordinate fundraising and volunteer efforts for certain house-building projects. The Coalitions collect certain funds that are restricted for building costs on the projects. Any excess funds remaining are retained in the coalition accounts for future projects, and are reported as restricted net assets.

Cash Held in Escrow – The Organization currently services the mortgages on the homes it sells. Included in assets held in escrow on the balance sheet are amounts received from the homeowners for insurance and property taxes on the homes. These cash amounts are recorded in cash held in escrow, which are offset by escrow deposits payable. The Organization had contributed \$3,595 to the cash held in escrow account to cover real estate taxes and homeowners' insurance for homeowners that have a negative balance in the escrow account.

**HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note A – Summary of Significant Accounting Policies (continued)

Inventory – ReStore sells donated building and home supplies to help support the Organization’s mission. These in-kind donations have no carrying value until sold. ReStore purchases some items for resale. This inventory is valued at the lower of cost or market determined by the first-in, first-out method.

Property and Equipment – The Organization capitalizes all expenditures for property and equipment with a per item cost in excess of \$1,000 and a life in excess of one year. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation of property and equipment has been calculated using the straight-line method, with life years as follows:

<u>Class of Property</u>	<u>Years</u>
Leasehold Improvements	39
Equipment	5-7
Buildings	39
Vehicles	5

Property and equipment by various class is detailed as follows:

Land in Use	\$ 359,742
Leasehold Improvements	69,081
Equipment	21,995
Buildings	782,364
Vehicles	50,515
Total	<u>1,283,697</u>
Less Accumulated Depreciation	<u>(108,585)</u>
Property and Equipment, Net	<u>\$ 1,175,112</u>

Donated Services – The Organization receives donated services from a variety of unpaid volunteers. Since the donations do not meet the recognition criteria of ASC 958-605-25-16, no amounts have been recorded in the financial statements.

Fair Value of Financial Instruments - The fair value of financial instruments classified as current assets or liabilities, including cash and cash equivalents, and accounts payable, approximate carrying value due to the short-term maturity of the instruments. The fair value of short-term and long-term mortgage loans (net of discount) receivable and debt amounts payable approximate their carrying value and are based on their effective interest rates compared to current market rates.

**HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note A – Summary of Significant Accounting Policies (continued)

Income Taxes – The Organization is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

Accounting principles generally accepted in the United States require management to evaluate tax positions taken by the Organization and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service (IRS). Management has analyzed the tax positions taken by the Organization, and has concluded that as of June 30, 2016, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements.

The Organization files its Forms 990 with the Internal Revenue Service and the Ohio Attorney General's office. The returns are generally subject to examination for three years after they were filed. No tax penalty of interest was due for the year.

Leases – The Organization leases office space from the City of Athens, paying \$600 for the fiscal year.

Mortgages Receivable – Mortgages receivable consists of non-interest bearing mortgages which are secured by the homes sold and are payable to the Organization by the partner families in monthly installments. The amount recorded as receivable is net of unamortized discount. Habitat's concentration of credit risk with respect to mortgage loans receivable depends on its partner families' ability to pay, which varies with economic condition in the area. The Organization considers the mortgage loans 100% collectable since they can foreclose and resell the property at more than owed due to the partner equity required during the build. Therefore there is no allowance for uncollectable accounts related to this account.

Transfers (Sales) to Homeowners/Mortgage Discount/Amortization of Mortgage Discounts – A transfer (sale) to a homeowner is recorded when the home is occupied and title is transferred to the partner family. The transfer is recorded at the gross amount of payments required to be remitted over the lives of the non-interest bearing mortgages. Mortgages are discounted at the time of the transfer to the homeowner based upon prevailing market rates, currently 7.51%. The discount is reflected in the statement of activities as mortgage discount expense when the loan is booked. Discounts are amortized over the life of the mortgage using the effective interest method. The annual charge to the discount is recorded as mortgage discount amortization (revenue) in the statement of activities.

The mortgages that were acquired through the mergers with the Habitat for Humanity of Perry and Hocking Counties did not have mortgage discount calculated for them and therefore, are not included in the mortgage discount calculation. Management believes the impact on the overall financial statements to be immaterial.

**HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note A – Summary of Significant Accounting Policies (continued)

Interest Expense – All interest incurred by the Organization was expense, none was associated with product financing arrangements and none was capitalized.

In-Kind Contributions – In-kind contributions are recorded at fair market value. In-kind contributions for ReStore inventory is recognized at the time the items are sold, that is when the fair market value is determined. In-kind contributions for building materials are recognized when they are received. Contributions for the year ended June 30, 2016 were as follows:

ReStore Contributions	\$ 420,398
Building Materials	<u>50,298</u>
Total	<u>\$ 470,696</u>

Temporarily Restricted Net Assets – The assets subject to donor-imposed stipulations must be met either by actions of the Organization and/or passage of time. Any donations made that are restricted by the donor and are used for the stated purpose within the fiscal year are classified as unrestricted revenue in the financial statements. The Organization has temporarily restricted assets at this time for the balances in the coalition checking accounts.

During the year ended June 30, 2016 net assets in the amount of \$10,423 were released from restriction to cover costs of the various home building projects.

Note B – Notes Payable and Long-term Debt

Long-term debt is comprised of notes payable to banks and Habitat for Humanity International with the following characteristics:

<u>Monthly Payment</u>	<u>Interest Rate</u>	<u>Date Due</u>	<u>Balance</u>
\$ 333	4.00%	Aug-20	\$ 100,000
2,308	4.50%	Feb-23	380,668
2,179	4.25%	Feb-36	346,264
212	3.92%	Mar-18	<u>4,305</u>
			831,237
Less current portion			<u>24,321</u>
			<u>\$ 806,916</u>

**HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note B – Notes Payable and Long-term Debt – (Continued)

The amount of the payment listed for each note includes interest and principal. The notes are installment notes and are payable for the acquisition of property and equipment and are payable to various financial institutions and governmental entities. These notes have been collateralized by property and equipment with a book amount at June 30, 2016, which totals \$1,096,841.

Long-term debt maturing within each of the next five years subsequent to June 30, 2016 is as follows:

Year ending June 30:		
	2017	\$ 24,321
	2018	24,768
	2019	23,922
	2020	124,926
	2021	26,131
	Thereafter	<u>607,169</u>
		<u>\$ 831,237</u>

Note C – Transactions with Habitat International

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International (International). These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2016, the Organization contributed \$6,739 to Habitat for Humanity International. Such expenses are recorded as charitable mission functional expense within housing expense in the Statement of Activities.

In 2016, the Organization received \$100,000 from International to fund construction. This loan has a 4% interest rate with interest only payments until maturity, which is August, 2020. This loan is included in long-term debt.

Note D – Subsequent Events

Events subsequent to July 7, 2016, have been evaluated through July 7, 2017, the date these financial statements were available to be issued, to determine whether they should be disclosed to keep the financial statements from being misleading.

Management has completed a merger with the Muskingum County Affiliate subsequent to June 30, 2016. The merger brought in additional mortgages receivable and land, but no additional liabilities.

**HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2016**

Note E – Concentrations

The Organization has concentrated its credit risk for cash by maintaining deposits in excess of the FDIC limit in a financial institution. The maximum loss that would have resulted from that risk totaled \$202,475 at the end of the fiscal year for the excess of the deposit liabilities reported by the bank over the amounts that would have been covered by federal insurance.

The Organization receives a substantial amount of support, directly or indirectly, from federal, state and local grants. A significant reduction in the level of this support, if such were to occur, would have a material effect on the Organization's programs and activities.