

**HABITAT FOR HUMANITY OF SOUTHEAST OHIO
ATHENS COUNTY
AUDITED FINANCIAL STATEMENTS
Year Ended June 30, 2017**

HABITAT FOR HUMANITY OF SOUTHEAST OHIO

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Jeanette R. Addington, MBA, CPA, CGFM ▪ Brian D. Long, CPA, PFS, CFF ▪ Keith A. Lewis, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Southeast Ohio

We have audited the accompanying financial statements of Habitat for Humanity of Southeast Ohio (a nonprofit organization) which comprise the statement of financial position as of June 30, 2017, 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.

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, 2017, 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.

A handwritten signature in cursive script that reads 'JC & Company'.

JC & Company
Lancaster, Ohio
April 20, 2018

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF FINANCIAL POSITION
June 30, 2017

ASSETS

CURRENT ASSETS

Cash and cash equivalents	\$	499,057
Cash and cash equivalents - restricted		110,194
Cash held in escrow		21,463
Current portion mortgage loans receivable		106,378
Construction in progress		284,550
Inventory		2,197
Other receivables		740
Prepaid expenses		3,870
TOTAL CURRENT ASSETS		1,028,449

NON-CURRENT ASSETS

Non-interest bearing residential mortgage loans, net of unamortized discounts of \$1,287,816, less current portion		1,034,905
Property and equipment, net		1,172,047
Land for future construction		195,405
TOTAL NON-CURRENT ASSETS		2,402,357

	\$	3,430,806
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$	23,265
Escrow deposits, net		29,386
Accrued and withheld taxes		8,163
Accrued interest		2,126
Accrued vacation		11,283
Amount due to affiliates		670
Current portion long-term debt		24,768
TOTAL CURRENT LIABILITIES		99,661

LONG-TERM DEBT, less current portion		782,049
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		881,710
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NET ASSETS

Unrestricted		2,453,976
Temporarily restricted		95,120
TOTAL NET ASSETS		2,549,096

	\$	3,430,806
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See notes to the financial statements

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	<u>UNRESTRICTED</u>	<u>TEMPORARILY RESTRICTED</u>	<u>TOTAL NET ASSETS</u>
REVENUE, GAINS AND OTHER SUPPORT			
Donations, net of related expenses	\$ 397,231	\$ -	\$ 397,231
Grants	198,789	-	198,789
Coalition contributions, net of related expenses	-	66,809	66,809
Interest earned	201	-	201
Sales ReStore	514,519	-	514,519
Home sales	479,731	-	479,731
Construction income	2,693	-	2,693
Support in-kind	27,500	-	27,500
Other revenue	292	-	292
Mortgage discount amortization	89,251	-	89,251
Rent income	720	-	720
Net assets released from restrictions	37,361	(37,361)	-
TOTAL REVENUES, GAINS AND OTHER SUPPORT	<u>1,748,288</u>	<u>29,448</u>	<u>1,777,736</u>
EXPENSES			
Housing	938,797	-	938,797
ReStore	389,190	-	389,190
Fundraising	93,547	-	93,547
Management and general	97,950	-	97,950
TOTAL EXPENSES	<u>1,519,484</u>	<u>-</u>	<u>1,519,484</u>
CHANGE IN NET ASSETS	228,804	29,448	258,252
NET ASSETS - BEGINNING OF YEAR	1,934,972	65,672	2,000,644
Acquisition of Habitat for Humanity of Perry and Hocking Counties	290,200	-	290,200
NET ASSETS - END OF YEAR	<u>\$ 2,453,976</u>	<u>\$ 95,120</u>	<u>\$ 2,549,096</u>

See notes to the financial statements

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017

	HOUSING	RESTORE	FUNDRAISING	MANAGEMENT AND GENERAL	TOTAL
Salaries and wages	\$ 173,988	\$ 189,536	-	\$ 42,665	\$ 406,189
Payroll taxes and employee benefits	20,948	24,890	-	6,452	52,290
Total Compensation	<u>194,936</u>	<u>214,426</u>	<u>-</u>	<u>49,117</u>	<u>458,479</u>
Capital campaign	-	-	76,600	-	76,600
Cost of sales	450,904	10,284	-	-	461,188
Depreciation	-	31,014	-	-	31,014
Donations	-	-	-	10,000	10,000
Fundraising expense	-	-	8,820	-	8,820
Insurance	6,859	11,849	-	-	18,708
Interest expense	-	36,005	-	-	36,005
International mission support	9,482	-	-	-	9,482
Mortgage discounts	194,358	-	-	-	194,358
Office supplies and expenses	17,624	7,820	1,000	8,911	35,355
Printing	4,215	957	572	-	5,744
Professional fees	17,583	7,856	-	14,596	40,035
Publicity and advertising	14,530	16,859	6,555	3,292	41,236
Rent	1,026	-	-	-	1,026
Repairs and maintenance	2,252	8,176	-	850	11,278
Taxes, insurance and fees	9,854	13,235	-	2,785	25,874
Travel and meetings	12,526	1,726	-	5,902	20,154
Utilities	703	23,201	-	2,497	26,401
Vehicle expense	1,945	5,782	-	-	7,727
TOTAL FUNCTIONAL EXPENSES	<u>\$ 938,797</u>	<u>\$ 389,190</u>	<u>\$ 93,547</u>	<u>\$ 97,950</u>	<u>\$ 1,519,484</u>

See notes to the financial statements

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Change in net assets	\$ 258,253
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation expense	31,014
Mortgage discount amortization	(89,251)
Mortgage discount expense	194,358
(Increase) decrease in assets:	
Cash - temporarily restricted	(44,522)
Cash held in escrow	3,278
Mortgages receivable	(220,360)
Grants receivable	32,500
Construction in progress	(74,144)
Inventory	306
Other receivables	(440)
Prepaid expenses	(1,028)
Land for future construction	(95,154)
Increase (decrease) in liabilities	
Accounts payable	(1,539)
Escrow deposits	10,866
Accrued payroll and taxes	(352)
Amounts due to affiliates	376

NET CASH PROVIDED BY OPERATING ACTIVITIES 4,161

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(27,949)
Acquisition by merger	185,090

NET CASH PROVIDED BY INVESTING ACTIVITIES 157,141

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on long-term debt	(24,420)
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CHANGE IN CASH AND CASH EQUIVALENTS 136,882

CASH AND CASH EQUIVALENTS - BEGINNING OF YEAR 362,175

CASH AND CASH EQUIVALENTS - END OF YEAR \$ 499,057

SUPPLEMENTAL DISCLOSURES:

SCHEDULE OF NON-CASH TRANSACTIONS

In-kind support for materials and labor in construction	\$ 27,500
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SCHEDULE OF INTEREST PAID IN CASH

Interest expense	\$ 36,005
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See notes to the financial statements

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

1. NATURE OF ACTIVITIES

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 resident 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.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this method of accounting, revenues and expenses are identified within specific periods of time and are recorded as incurred, along with acquired assets, without regard to the date of receipt or the payment of cash.

Financial Statement Presentation

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

- Unrestricted net assets - Net assets that are not subject to donor-imposed stipulations.
- Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. The Organization has temporarily restricted assets at this time for the balances in the coalition checking accounts.

During the year ended June 30, 2017, net assets in the amount of \$37,361 were released from restriction to cover costs of the various home building projects.

- Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on related investments for general or specific purposes. As of June 30, 2017, the Organization did not have any permanently restricted net assets.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e. the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates, and may impact future reporting periods.

Cash and Cash Equivalents

For the purpose of the statements of cash flows, cash and cash equivalents include all highly liquid investment instruments with original maturities of three months or less.

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
 NOTES TO FINANCIAL STATEMENTS
 JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

Cash – Restricted

The 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 temporarily 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.

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.

Prepaid Expenses

Payments made to vendors for services that will benefit periods beyond June 30, 2017, are recorded as prepaid expenses using the consumption method. A current asset for the amount is recorded at the time of the payment and expense is recorded in the year in which the services are consumed.

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.

Property and Equipment

Property and equipment are recorded at cost if purchased or at estimated fair market value at the date of donation. Expenditures for major additions and improvements over \$1,000 are capitalized and minor replacements, maintenance, and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of, the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation of the related assets is provided using the straight-line method over estimated economic, useful lives ranging from 5 to 39 years.

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		78,464
Total		1,311,646
Less: Accumulated Depreciation		139,599
Property and Equipment, Net	\$	1,172,047

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

Income Taxes

The Organization has been classified as other than a private foundation and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code. The Organization is subject to a tax on income from any unrelated business.

The Organization has analyzed tax positions taken for filing with the Internal Revenue Service and the state jurisdictions where it operates. The Organization believes that income tax filing positions will be sustained upon examination and does not anticipate any adjustments that would result in a material adverse affect on the Organization's financial condition, results of operations or cash flows. Accordingly, the Organization has not recorded any reserves, or related accruals for interest and penalties for uncertain income tax positions at June 30, 2017.

The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization believes it is no longer subject to tax examinations for years prior to 2014.

Donated Services

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

Advertising

The Organization expenses advertising as incurred and was \$41,236 for the year ended June 30, 2017.

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.

Leases

The Organization leases office space from the City of Athens, paying \$600 for the fiscal year ended June 30, 2017.

Interest Expense

All interest incurred by the Organization was expensed. 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 to the ReStore are not tracked and recorded in the financial statements but recognized as cost of goods sold at the time of sale when the fair market value is determined. In-kind contributions of building materials are recognized when they are received. Contributions for the year ended June 30, 2017 were \$27,500.

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.

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

3. ACCRUED VACATION

In accordance with the Organization's personnel policies, its employees earn vacation throughout the year. Vacation benefits are allowed to accrue annually up to 15 days for exempt staff and up to 5 days for non-exempt staff. Any unused vacation is paid to an employee upon termination of employment. Accrued vacation is reported on the statement of financial position and is \$11,283.

4. NOTES PAYABLE AND LONG-TERM DEBT

Long-term debt is comprised of notes payables 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%	August, 2020	\$ 100,000
\$ 2,308	4.50%	February, 2023	370,119
\$ 2,179	4.25%	February, 2036	334,816
\$ 212	3.92%	March, 2018	1,882
			<u>806,817</u>
		Less: Current Portion	24,768
		Total Long-Term Debt	<u>\$ 782,049</u>

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.

Long-term debt maturing within each of the next five years subsequent to June 30, 2017 is as follows:

Year ending June 30:

2018	\$ 24,768
2019	23,922
2020	124,926
2021	26,131
2022	26,923
Thereafter	<u>580,147</u>
	<u>\$ 806,817</u>

5. 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 \$362,342 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.

HABITAT FOR HUMANITY OF SOUTHEAST OHIO
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017

6. CAPITAL CAMPAIGN

The Organization has initiated a capital campaign with goals to build a new office, training center, and endowment fund to enhance programs throughout Southeast Ohio. As such, the Organization will incur additional expenses relating to the campaign and management of the campaign. These expenses will continue through the June 30, 2018 fiscal year.

7. TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International (HFHI). These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2017, the Organization contributed \$9,482 to HFHI. Such expenses are recorded as international mission support within housing expense in the Statement of Functional Expenses.

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

8. SUBSEQUENT EVENTS

Management has evaluated subsequent events through April 20, 2018, the date the financial statements were available to be issued. Any subsequent events after that date have not been evaluated.



Jeanette R. Addington, MBA, CPA, CGFM ▪ Brian D. Long, CPA, PFS, CFF ▪ Keith A. Lewis, CPA

To the Board and Management of
Habitat for Humanity of Southeast Ohio
525 W Union Street
Athens, Ohio 45701

In planning and performing our audit of the financial statements of Habitat for Humanity of Southeast Ohio as of and for the year ended June 30, 2017, in accordance with auditing standards generally accepted in the United States of America, we considered Habitat for Humanity of Southeast Ohio's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies, and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as discussed below, we identified certain deficiencies in internal control that we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the Organization's financial statements will not be prevented, or detected and corrected, on a timely basis. We did not identify any deficiencies in internal control that we consider to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies in Habitat for Humanity of Southeast Ohio's internal control to be significant deficiencies:

Supporting documentation was missing for a significant number of balance sheet accounts. Although we were provided with details of the activity in the accounts and could trace transactions for testing purposes, there was no support for the final balance to which we could reconcile the transactions.

This communication is intended solely for the information and use of management, and others within the Organization, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink that reads "JC & Company".

JC & Company
Lancaster, Ohio
April 20, 2018