

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

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

March 31, 2018

INDEX

	<u>Page</u>
Independent Auditor's Report	
Financial Statements:	
Statement of Financial Position	3 - 4
Statement of Changes in Net Assets	5
Statement of Activities	6 - 7
Statement of Functional Expenses	8 - 9
Statement of Cash Flows	10 - 11
Notes to Financial Statements	12 - 23



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, 2018 and 2017, 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, 2018 and 2017, 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.

Emphasis of Matter

As discussed in Note 1, the Organization had a change in accounting policy related to the recording of donations made to the Restore. This change was adopted in 2018 and the 2017 Statement of Activities has been restated to properly reflect this change. Our opinion is not modified with respect to this matter.

A handwritten signature in blue ink that reads "Meaden & Moore Ltd." in a cursive, flowing script.

MEADEN & MOORE, LTD.
Akron, Ohio

August 21, 2018

STATEMENT OF FINANCIAL POSITION

Habitat for Humanity of Summit County, Inc.

	March 31 2018		
	Unrestricted	Temporarily Restricted	Total
ASSETS:			
Cash and cash equivalents	\$ 43,708	\$ 271,025	\$ 314,733
Mortgages receivable - net of discount	2,600,716	-	2,600,716
Inventory	260,076	-	260,076
Prepaid expenses and deposits	12,317	-	12,317
Construction in progress - net of discount	177,668	-	177,668
Land, buildings and equipment - net	1,994,430	-	1,994,430
Intangible assets	4,809	-	4,809
Land held for resale	585,611	-	585,611
Homes held for resale - net of discount	48,758	-	48,758
Homes held for lease - net of discount	44,142	-	44,142
	<u>5,772,235</u>	<u>271,025</u>	<u>6,043,260</u>
Total Assets	<u>\$ 5,772,235</u>	<u>\$ 271,025</u>	<u>\$ 6,043,260</u>
LIABILITIES:			
Accounts payable	\$ 76,105	\$ -	\$ 76,105
Accrued expenses	92,157	-	92,157
Long-term debt	266,471	-	266,471
	<u>434,733</u>	<u>-</u>	<u>434,733</u>
Total Liabilities	<u>434,733</u>	<u>-</u>	<u>434,733</u>
NET ASSETS	<u>5,337,502</u>	<u>271,025</u>	<u>5,608,527</u>
Total Liabilities and Net Assets	<u>\$ 5,772,235</u>	<u>\$ 271,025</u>	<u>\$ 6,043,260</u>

See accompanying notes.

	March 31 2017		
	Unrestricted	Temporarily Restricted	Total
ASSETS:			
Cash and cash equivalents	\$ 182,631	\$ 145,766	\$ 328,397
Mortgages receivable - net of discount	2,595,307	-	2,595,307
Inventory	262,552	-	262,552
Prepaid expenses and deposits	41,478	-	41,478
Construction in progress - net of discount	189,968	-	189,968
Land, buildings and equipment - net	2,035,792	-	2,035,792
Intangible assets	2,287	-	2,287
Land held for resale	518,328	-	518,328
Homes held for resale - net of discount	64,114	-	64,114
	<u>5,892,457</u>	<u>145,766</u>	<u>6,038,223</u>
Total Assets	<u>\$ 5,892,457</u>	<u>\$ 145,766</u>	<u>\$ 6,038,223</u>
LIABILITIES:			
Accounts payable	\$ 51,348	\$ -	\$ 51,348
Accrued expenses	84,240	-	84,240
Long-term debt	343,037	-	343,037
	<u>478,625</u>	<u>-</u>	<u>478,625</u>
Total Liabilities	478,625	-	478,625
NET ASSETS	<u>5,413,832</u>	<u>145,766</u>	<u>5,559,598</u>
Total Liabilities and Net Assets	<u>\$ 5,892,457</u>	<u>\$ 145,766</u>	<u>\$ 6,038,223</u>

STATEMENT OF CHANGES IN NET ASSETS

Habitat for Humanity of Summit County, Inc.

For the Years Ended March 31, 2018 and 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets - March 31, 2016	\$ 5,351,447	\$ 130,389	\$ 5,481,836
Change in net assets - 2017	<u>62,385</u>	<u>15,377</u>	<u>77,762</u>
Net Assets - March 31, 2017	5,413,832	145,766	5,559,598
Change in net assets - 2018	<u>(76,330)</u>	<u>125,259</u>	<u>48,929</u>
Net Assets - March 31, 2018	<u>\$ 5,337,502</u>	<u>\$ 271,025</u>	<u>\$ 5,608,527</u>

See accompanying notes.

STATEMENT OF ACTIVITIES

Habitat for Humanity of Summit County, Inc.

Years Ended March 31

	2018		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
OPERATING SUPPORT AND REVENUE:			
Contributions and grants	\$ 656,679	\$ 463,388	\$ 1,120,067
Donated goods and services	1,184,047	-	1,184,047
Special events - net	28,430	-	28,430
Mortgages and loans issued to homeowners	602,060	-	602,060
Imputed interest from discounted mortgages	191,546	-	191,546
ReStore income	1,143,617	-	1,143,617
Loss on sale of homes and lots	(92,957)	-	(92,957)
Investment income	94	-	94
Other income	17,110	-	17,110
	<u>3,730,626</u>	<u>463,388</u>	<u>4,194,014</u>
Total Operating Support and Revenue			
Net Assets Released from Restrictions:			
Satisfaction of program restrictions	<u>338,129</u>	<u>(338,129)</u>	<u>-</u>
	<u>4,068,755</u>	<u>125,259</u>	<u>4,194,014</u>
EXPENSES:			
Program services	3,469,814	-	3,469,814
General and administrative	485,840	-	485,840
Fundraising and development	189,431	-	189,431
	<u>4,145,085</u>	<u>-</u>	<u>4,145,085</u>
Total Expenses			
Change in Net Assets	<u>\$ (76,330)</u>	<u>\$ 125,259</u>	<u>\$ 48,929</u>

See accompanying notes.

2017

Unrestricted	Temporarily Restricted	Total
\$ 687,517	\$ 292,614	\$ 980,131
1,287,675	-	1,287,675
50,100	-	50,100
451,272	-	451,272
198,157	-	198,157
1,228,386	-	1,228,386
(70,430)	-	(70,430)
106	-	106
23,909	-	23,909
3,856,692	292,614	4,149,306
277,237	(277,237)	-
4,133,929	15,377	4,149,306
3,365,813	-	3,365,813
508,947	-	508,947
196,784	-	196,784
4,071,544	-	4,071,544
\$ 62,385	\$ 15,377	\$ 77,762

STATEMENT OF FUNCTIONAL EXPENSES

Habitat for Humanity of Summit County, Inc.

Years Ended March 31

	2018			Total
	Program Services	General and Administrative	Fundraising and Development	
Cost of ReStore sales	\$ 1,148,137	\$ -	\$ -	\$ 1,148,137
Cost of homes	903,370	-	-	903,370
Discount on mortgages issued, including anticipated discount on construction in progress	318,606	-	-	318,606
Cost of homes - International Tithe	20,000	-	-	20,000
Salaries and wages	649,380	193,621	119,329	962,330
Payroll taxes	62,082	18,511	11,408	92,001
Employee benefits	109,311	32,592	20,087	161,990
Professional and contract services	25,559	25,555	13,834	64,948
Rent	7,488	7,488	-	14,976
Utilities	41,202	41,201	-	82,403
Repairs and maintenance	15,836	15,836	-	31,672
Equipment expenses	3,227	3,227	-	6,454
Property taxes	3,773	3,773	-	7,546
Depreciation and amortization	37,385	37,385	-	74,770
Office supplies	11,748	11,747	-	23,495
Printing and publications	1,237	1,237	2,474	4,948
Postage	2,260	2,259	-	4,519
Insurance	29,937	29,937	-	59,874
Advertising and marketing	11,150	11,149	22,299	44,598
Transportation and travel	26,701	8,900	-	35,601
Conferences and meetings	1,987	1,986	-	3,973
Bank service charges	7,728	7,727	-	15,455
Interest expense	8,481	8,481	-	16,962
Miscellaneous operating expenses	23,229	23,228	-	46,457
Total Functional Expenses	\$ 3,469,814	\$ 485,840	\$ 189,431	\$ 4,145,085

See accompanying notes.

2017

Program Services	General and Administrative	Fundraising and Development	Total
\$ 1,236,894	\$ -	\$ -	\$ 1,236,894
733,349	-	-	733,349
291,700	-	-	291,700
40,000	-	-	40,000
594,482	177,252	109,241	880,975
68,559	20,442	12,598	101,599
105,647	31,500	19,413	156,560
35,919	35,915	19,441	91,275
7,276	7,275	-	14,551
42,262	42,261	-	84,523
24,175	24,175	-	48,350
2,144	2,143	-	4,287
3,457	3,457	-	6,914
41,206	41,206	-	82,412
20,049	20,047	-	40,096
1,423	1,423	2,847	5,693
2,101	2,100	-	4,201
34,393	34,392	-	68,785
16,622	16,621	33,244	66,487
23,123	7,708	-	30,831
3,394	3,394	-	6,788
8,135	8,134	-	16,269
8,837	8,836	-	17,673
20,666	20,666	-	41,332
<u>\$ 3,365,813</u>	<u>\$ 508,947</u>	<u>\$ 196,784</u>	<u>\$ 4,071,544</u>

STATEMENT OF CASH FLOWS

Habitat for Humanity of Summit County, Inc.

	Year Ended March 31	
	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors	\$ 2,399,480	\$ 2,296,622
Cash received from sale of merchandise	1,143,617	1,228,386
Interest received	94	106
Cash paid to suppliers and employees	(3,793,178)	(3,882,744)
Interest paid	(13,473)	(17,673)
	(263,460)	(375,303)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on sale of land and homes	39,965	33,225
Capital expenditures	(33,408)	(136,971)
Land purchased	(11,858)	(35,559)
Mortgage and loan payments received	337,674	325,143
	332,373	185,838
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional borrowings on long-term debt	15,050	-
Repayment of long-term debt	(91,616)	(117,936)
Loan fees	(6,011)	-
	(82,577)	(117,936)
Cash Used in Financing Activities	(82,577)	(117,936)
Decrease in Cash and Equivalents	(13,664)	(307,401)
Cash and Cash Equivalents - Beginning of the Year	328,397	635,798
Cash and Cash Equivalents - End of the Year	\$ 314,733	\$ 328,397

See accompanying notes.

	Year Ended March 31	
	<u>2018</u>	<u>2017</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in Net Assets	\$ 48,929	\$ 77,762
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	74,770	81,554
Amortization of loan fees	3,489	858
Mortgage loan discount amortization	(191,546)	(198,157)
Donated property and equipment	-	(2,500)
Loss on sale of homes and land	92,957	70,430
Donated land	(141,720)	(201,220)
Donated building	-	(39,630)
Mortgages and loans issued to homeowners	(602,060)	(451,272)
Discount on mortgages and leases issued	347,390	244,537
Discount on construction in progress	(12,802)	40,921
Discount on homes held for resale	(15,982)	6,242
Increase (Decrease) in Cash from Changes in:		
Inventory	2,476	(12,879)
Home rehabilitation and construction in progress	78,630	27,556
Prepaid expenses and deposits	19,335	15,276
Accounts payable	24,757	(43,540)
Accrued expenses	7,917	8,759
	<u>(312,389)</u>	<u>(453,065)</u>
 Total Adjustments	 <u>(312,389)</u>	 <u>(453,065)</u>
 Cash Used in Operating Activities	 <u>\$ (263,460)</u>	 <u>\$ (375,303)</u>
 Supplemental Schedule of Noncash Investing and Financing Activities:		
Mortgage receivable forgiven on redeemed	<u>\$ 229,077</u>	<u>\$ -</u>
Land transferred to construction in progress	<u>\$ 76,894</u>	<u>\$ 107,795</u>
Homes held for resale converted to lease	<u>\$ 90,086</u>	<u>\$ -</u>
Leased homes transferred to mortgage	<u>\$ 80,000</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 ("A Brush with Kindness") 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.

HFHSC also builds to unify a voice to renew the community through their Neighborhood Network Mission. They engage in neighborhood organizations, block clubs, faith communities, social service agencies and business to build relationships and the community. They repair homes for qualifying households, install lights and complete vacant lot clean up and general landscaping assistance.

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.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Classification of Net Assets

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

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.

	2018			2017
	Total	Current Portion	Long-Term Portion	Total
Mortgage receivable - gross	\$ 5,694,275	\$ 366,132	\$ 5,328,143	\$ 5,578,966
Discount	(3,093,559)	(186,727)	(2,906,832)	(2,983,659)
Mortgage receivable - net	<u>\$ 2,600,716</u>	<u>\$ 179,405</u>	<u>\$ 2,421,311</u>	<u>\$ 2,595,307</u>

During the year ended March 31, 2018, 6 homes were transferred to qualified families recognizing \$585,000 of revenue from mortgage transfers. During the year ended March 31, 2017, 5 homes were transferred to qualified families recognizing \$440,000 of revenue from mortgage transfers.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Mortgage Receivable and Discount, Continued:

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, 2018, there were 2 mortgages in foreclosure totaling \$42,259 with an unamortized discount of \$15,713. At March 31, 2017, there were 2 mortgage in foreclosure totaling \$159,950 with an unamortized discount of \$68,781.

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.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

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. The Organization buys land that they may or may not build on and occasionally sells the land outright. Therefore, it is considered an investment.

In 2018 and 2017, there were 27 and 25 lots totaling \$585,611 and \$518,328, respectively.

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 were 2 homes for resale totaling \$48,758 in 2018. There were 3 homes for resale totaling \$64,114 in 2017.

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 \$77,517 (2018) and \$73,535 (2017). 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>2018</u>	<u>2017</u>
Donated inventory	\$ 247,810	\$ 250,192
Purchased inventory	<u>12,266</u>	<u>12,360</u>
Total inventory	<u>\$ 260,076</u>	<u>\$ 262,552</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

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 \$182,150 (2018) and \$300,139 (2017).

Change in Accounting Policy:

Habitat for Humanity International changed the policy on how affiliates should record donations made to the ReStore. Historically, the Organization did not record a value for donations made to the ReStore. In 2018, the Organization adopted this change in policy and recorded in-kind revenue and expense for these donations at an estimated fair market value which is equal to total ReStore sales in 2018 of \$1,143,617. The 2017 Statement of Activities and Statement of Functional Expenses have been updated to record \$1,228,386 of in-kind revenue and expenses.

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.

		2018		2017
Homes Under Construction - Beginning of Year	7	\$ 387,689	4	\$ 307,450
Additional costs incurred on beginning homes	-	497,845	-	177,809
Homes started during the year	6	244,307	8	507,928
Homes transferred during the year	<u>(6)</u>	<u>(767,254)</u>	<u>(5)</u>	<u>(605,498)</u>
Homes Under Construction - End of Year	<u>7</u>	<u>362,587</u>	<u>7</u>	<u>387,689</u>
Discount		<u>(184,919)</u>		<u>(197,721)</u>
Construction in progress - net		<u>\$ 177,668</u>		<u>\$ 189,968</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

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 Held for Lease:

Homes held for 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. The discount is recorded to reflect the economic benefit of the zero-interest-mortgage to the purchaser.

	<u>2018</u>	<u>2017</u>
	<u>1 Home</u>	<u>0 Homes</u>
Lease value of home - gross	\$ 90,086	\$ -
Discount	<u>(45,944)</u>	<u>-</u>
	<u>\$ 44,142</u>	<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.

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>2018</u>	<u>2017</u>
Land, buildings and improvements	\$ 2,254,747	\$ 2,234,324
Equipment	13,242	13,242
Office furniture	105,803	106,803
Vehicles	<u>220,145</u>	<u>207,160</u>
	2,593,937	2,561,529
Less: Accumulated depreciation	<u>(599,507)</u>	<u>(525,737)</u>
	<u>\$ 1,994,430</u>	<u>\$ 2,035,792</u>
Depreciation Expense	<u>\$ 74,770</u>	<u>\$ 81,554</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Property and Equipment, Continued:

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

Class	Years
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.

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.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

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.

Reclassifications:

Certain prior amounts were 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 21, 2018, which is the date the financial statements were available to be issued.

2 Line-of-Credit

In November 2017, the Organization opened a line-of-credit with borrowings up to \$500,000 through September 2019. Interest is charged at prime plus 0.50% (5.00%). There was no amount outstanding on the line of credit at year-end.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

3 Long-Term Debt

	Current Portion	Total	
	2018	2018	2017
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.	\$ 47,165	\$ 88,089	\$ 133,191
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.	1,414	7,153	8,493
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.	1,414	7,153	8,493
Note payable was entered into by the Organization and the City of Akron for sewer and water lines on May 9, 2017, amounting to \$15,050. Principal and interest payments are due monthly in the amount of \$162. The note bears interest at 5.28% and matures in June 2027. The City reserves the right to terminate sewer and water service in the event of default of the note.	1,227	14,076	-

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

3 Long-Term Debt, Continued

	<u>Current Portion</u>	<u>Total</u>	
	<u>2018</u>	<u>2018</u>	<u>2017</u>
Note payable was entered into by the Organization on September 13, 2012, amounting to \$271,893. Principal and interest payments were due quarterly in the amount of \$14,609. The note bore interest at 4.50%. The note was secured by mortgage receivables and was paid off in December 2017.	-	-	42,860
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, 2018. The note is secured by mortgage receivables amounting to \$143,458 at March 31, 2018. The note was paid in full in June 2018.	<u>150,000</u>	<u>150,000</u>	150,000
	<u>\$ 201,220</u>	<u>266,471</u>	343,037
Less: Current Portion		<u>201,220</u>	90,409
Total Long-Term Portion		<u>\$ 65,251</u>	<u>\$ 252,628</u>

Maturities of long-term debt are as follows:

	<u>Total</u>
2019	\$ 201,220
2020	45,201
2021	4,511
2022	4,759
2023	3,538
Thereafter	<u>7,242</u>
Total	<u>\$ 266,471</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

4 Leases

The Organization has various lease agreements for office equipment through March 2021. Rent expense was \$14,976 (2018) and \$14,551 (2017). Minimum lease payments due under the operating lease obligations are due as follows:

2019	\$	13,854
2020		13,080
2021		<u>13,080</u>
Total	\$	<u><u>40,014</u></u>

5 Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	2018			
	Beginning Net Assets	Contributions and Investment Income	Net Assets Released from Restriction	Ending Net Assets
Operating support for Adopt a House	\$ 145,766	\$ 343,705	\$ (320,354)	\$ 169,117
Neighborhood Network Revitalization	<u>-</u>	<u>119,683</u>	<u>(17,775)</u>	<u>101,908</u>
	<u>\$ 145,766</u>	<u>\$ 463,388</u>	<u>\$ (338,129)</u>	<u>\$ 271,025</u>

	2017			
	Beginning Net Assets	Contributions and Investment Income	Net Assets Released from Restriction	Ending Net Assets
Operating support for Adopt a House	\$ 130,389	\$ 292,614	\$ (277,237)	\$ 145,766

6 Related Party Transactions

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

HFHSC tithes to International amounted to \$20,000 (2018) and \$40,000 (2017).

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.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

6 Related Party Transactions, Continued

HFHSC contributions to HFHSC Ohio amounted to \$2,500 (2018) and \$2,525 (2017).

International assesses an affiliate branding fee to all of the affiliates. HFHSC's branding fees amounted to \$15,000 in 2018 and 2017.

7 Retirement Plan

The Organization has a Simple IRA plan covering substantially all employees. The Organization matches employees' contributions of up to 3% of compensation or \$12,500 per employee, whichever is less. The Organization's contributions to the Plan were \$16,073 (2018) and \$3,989 (2017).

8 Conditional Grants

HFHSC received a conditional grant from Summit County ("County") for the Home Investment Partnership Program ("HOME"). A total amount of \$90,000 (2018) and \$0 (2017) 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 \$76,645 (2018) and \$21,893 (2017). 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 \$80,000 (2018) and \$160,000 (2017) 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 \$100,000 (2018) and \$160,000 (2017) 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.

HFHSC has a third conditional grant with the City of Akron to implement a Deconstruction Project. A total amount of \$56,000 (2018) and \$56,000 (2017) 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 \$3,360 (2018) and \$38,670 (2017).

HFHSC has a fourth conditional grant with the Summit County Land Reutilization Corporation ("SCLRC"). A total amount of \$0 (2018) and \$56,000 (2017) is contingent upon deconstruction services as assigned by SCLRC. Approximately \$27,000 (2018) and \$18,000 (2017) of revenue has been recognized under this grant.

HFHSC has a conditional grant with the City of Cuyahoga Falls through December 2018. A total amount of \$50,000 was awarded in July 2017 for assisting a minimum of eight qualified HFHSC homeowners within the City of Cuyahoga Falls under the A Brush with Kindness rehabilitation program (see Note 1). Approximately \$20,000 of revenue has been recognized under this grant in the current fiscal year.

The Organization was awarded a capacity build reimbursement grant of \$100,000 for the period of April 1, 2017 to March 31, 2020. The Organization will receive the funds over the three-year period for salary reimbursement for the build or repair of 65 homes. Approximately \$46,000 of revenue has been recognized under this grant in the current fiscal year.