

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

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

March 31, 2017

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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, 2017 and 2016, 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, 2017 and 2016, 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.



MEADEN & MOORE, LTD.
Akron, Ohio

August 15, 2017

STATEMENT OF FINANCIAL POSITION

Habitat for Humanity of Summit County, Inc.

	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	<u>478,625</u>	<u>-</u>	<u>478,625</u>
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>

See accompanying notes.

	March 31 2016		
	Unrestricted	Temporarily Restricted	Total
ASSETS:			
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	58,118	-	58,118
	<u>5,982,789</u>	<u>130,389</u>	<u>6,113,178</u>
Total Assets	<u>\$ 5,982,789</u>	<u>\$ 130,389</u>	<u>\$ 6,113,178</u>
LIABILITIES:			
Accounts payable	\$ 94,888	\$ -	\$ 94,888
Accrued expenses	75,481	-	75,481
Long-term debt	460,973	-	460,973
	<u>631,342</u>	<u>-</u>	<u>631,342</u>
Total Liabilities	<u>631,342</u>	<u>-</u>	<u>631,342</u>
NET ASSETS			
	<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>

STATEMENT OF CHANGES IN NET ASSETS

Habitat for Humanity of Summit County, Inc.

For the Years Ended March 31, 2017 and 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</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	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	<u>\$ 5,413,832</u>	<u>\$ 145,766</u>	<u>\$ 5,559,598</u>

See accompanying notes.

STATEMENT OF ACTIVITIES

Habitat for Humanity of Summit County, Inc.

Years Ended March 31

	2017		
	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE:			
Contributions and grants	\$ 746,806	\$ 292,614	\$ 1,039,420
Special events - net	50,100	-	50,100
Mortgages and loans issued to homeowners	451,272	-	451,272
Imputed interest from discounted mortgages	198,157	-	198,157
Sales of merchandise - net	1,219,878	-	1,219,878
Loss on sale of homes and lots	(70,430)	-	(70,430)
Investment income	106	-	106
Other income	23,909	-	23,909
Total Operating Support and Revenue	2,619,798	292,614	2,912,412
Net Assets Released from Restrictions:			
Satisfaction of program restrictions	<u>277,237</u>	<u>(277,237)</u>	<u>-</u>
	2,897,035	15,377	2,912,412
EXPENSES:			
Program services	2,128,919	-	2,128,919
General and administrative	508,947	-	508,947
Fundraising and development	196,784	-	196,784
Total Expenses	<u>2,834,650</u>	<u>-</u>	<u>2,834,650</u>
Change in Net Assets	<u>\$ 62,385</u>	<u>\$ 15,377</u>	<u>\$ 77,762</u>

See accompanying notes.

2016

Unrestricted	Temporarily Restricted	Total
\$ 615,932	\$ 336,903	\$ 952,835
41,678	-	41,678
400,105	-	400,105
184,551	-	184,551
1,223,548	-	1,223,548
(21,519)	-	(21,519)
169	-	169
15,596	-	15,596
2,460,060	336,903	2,796,963
396,965	(396,965)	-
2,857,025	(60,062)	2,796,963
1,965,709	-	1,965,709
448,587	-	448,587
159,712	-	159,712
2,574,008	-	2,574,008
\$ 283,017	\$ (60,062)	\$ 222,955

STATEMENT OF FUNCTIONAL EXPENSES

Habitat for Humanity of Summit County, Inc.

Years Ended March 31

	2017			
	Program Services	General and Administrative	Fundraising and Development	Total
Cost of homes	\$ 733,349	\$ -	\$ -	\$ 733,349
Discount on mortgages issued, including anticipated discount on construction in progress	291,700	-	-	291,700
Cost of homes - International Tithe	40,000	-	-	40,000
Salaries and wages	594,482	177,252	109,241	880,975
Payroll taxes	68,559	20,442	12,598	101,599
Employee benefits	105,647	31,500	19,413	156,560
Professional and contract services	35,919	35,915	19,441	91,275
Rent	7,276	7,275	-	14,551
Utilities	42,262	42,261	-	84,523
Repairs and maintenance	24,175	24,175	-	48,350
Equipment expenses	2,144	2,143	-	4,287
Property taxes	3,457	3,457	-	6,914
Depreciation and amortization	41,206	41,206	-	82,412
Office supplies	20,049	20,047	-	40,096
Printing and publications	1,423	1,423	2,847	5,693
Postage	2,101	2,100	-	4,201
Insurance	34,393	34,392	-	68,785
Advertising and marketing	16,622	16,621	33,244	66,487
Transportation and travel	23,123	7,708	-	30,831
Conferences and meetings	3,394	3,394	-	6,788
Bank service charges	8,135	8,134	-	16,269
Interest expense	8,837	8,836	-	17,673
Miscellaneous operating expenses	20,666	20,666	-	41,332
Total Expense	\$ 2,128,919	\$ 508,947	\$ 196,784	\$ 2,834,650

See accompanying notes.

2016

Program Services	General and Administrative	Fundraising and Development	Total
\$ 650,275	\$ -	\$ -	\$ 650,275
383,491	-	-	383,491
4,000	-	-	4,000
507,182	151,223	93,199	751,604
53,480	15,946	9,827	79,253
98,820	29,465	18,159	146,444
26,226	26,223	14,195	66,644
7,861	7,860	-	15,721
39,260	39,259	-	78,519
17,175	17,175	-	34,350
2,680	2,679	-	5,359
5,017	5,016	-	10,033
44,616	44,616	-	89,232
20,923	20,922	-	41,845
3,096	3,095	6,192	12,383
3,797	3,796	-	7,593
22,648	22,648	-	45,296
9,070	9,069	18,140	36,279
24,739	8,246	-	32,985
1,165	1,164	-	2,329
8,545	8,544	-	17,089
12,500	12,499	-	24,999
19,143	19,142	-	38,285
<u>\$ 1,965,709</u>	<u>\$ 448,587</u>	<u>\$ 159,712</u>	<u>\$ 2,574,008</u>

STATEMENT OF CASH FLOWS

Habitat for Humanity of Summit County, Inc.

	Year Ended March 31	
	<u>2017</u>	<u>2016</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors	\$ 997,806	\$ 1,115,991
Cash received from sale of merchandise	1,219,878	1,223,548
Interest received	106	169
Cash paid to suppliers and employees	(2,575,420)	(2,382,627)
Interest paid	<u>(17,673)</u>	<u>(24,999)</u>
 Cash Used in Operating Activities	 (375,303)	 (67,918)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds on sale of land and homes	33,225	23,488
Capital expenditures	(136,971)	(126,710)
Land purchased	(35,559)	-
Mortgage and loan payments received	<u>325,143</u>	<u>345,044</u>
 Cash Provided by Investing Activities	 185,838	 241,822
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	<u>(117,936)</u>	<u>(164,003)</u>
 Increase (Decrease) in Cash and Cash Equivalents	 (307,401)	 9,901
 Cash and Cash Equivalents - Beginning of the Year	 <u>635,798</u>	 <u>625,897</u>
 Cash and Cash Equivalents - End of the Year	 <u>\$ 328,397</u>	 <u>\$ 635,798</u>

See accompanying notes.

	Year Ended March 31	
	<u>2017</u>	<u>2016</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH USED IN OPERATING ACTIVITIES:		
Change in Net Assets	\$ 77,762	\$ 222,955
Adjustments to Reconcile Change in Net Assets to Net Cash Used in Operating Activities:		
Depreciation	81,554	88,374
Amortization of intangibles	858	858
Mortgage loan discount amortization	(198,157)	(184,551)
Donated property and equipment	(2,500)	-
Loss on sale of homes and land	70,430	21,519
Donated land	(201,220)	(60,000)
Donated building	(39,630)	-
Mortgages and loans issued to homeowners	(451,272)	(400,105)
Discount on mortgages and leases issued	244,537	166,202
Discount on construction in progress	40,921	156,800
Discount on homes held for resale	6,242	60,489
Increase (Decrease) in Cash from Changes in:		
Pledge receivable	-	2,850
Inventory	(12,879)	4,261
Construction in progress	27,556	(193,547)
Prepaid expenses and deposits	15,276	12,576
Accounts payable	(43,540)	39,220
Accrued expenses	8,759	(5,819)
	<u>(453,065)</u>	<u>(290,873)</u>
 Total Adjustments	 <u>(453,065)</u>	 <u>(290,873)</u>
 Cash Used in Operating Activities	 <u>\$ (375,303)</u>	 <u>\$ (67,918)</u>
 Supplemental Schedule of Noncash Investing and Financing Activities:		
Mortgage receivable forgiven on re deed	<u>\$ -</u>	<u>\$ 34,012</u>
Land transferred to construction in progress	<u>\$ 107,795</u>	<u>\$ 113,903</u>
Leased homes transferred to homes held for resale	<u>\$ -</u>	<u>\$ 74,210</u>
Deposits transferred to homes held for resale	<u>\$ -</u>	<u>\$ 10,385</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.

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.

	2017			2016
	Total	Current Portion	Long-Term Portion	Total
Mortgage receivable - gross	\$ 5,578,966	\$ 352,197	\$ 5,226,769	\$ 5,509,456
Discount	<u>(2,983,659)</u>	<u>(179,620)</u>	<u>(2,804,039)</u>	<u>(2,937,279)</u>
Mortgage receivable - net	<u>\$ 2,595,307</u>	<u>\$ 172,577</u>	<u>\$ 2,422,730</u>	<u>\$ 2,572,177</u>

During the year ended March 31, 2017, 5 homes were transferred to qualified families recognizing \$435,750 of revenue from mortgage transfers. During the year ended March 31, 2016, 4 homes were transferred to qualified families recognizing \$376,100 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, 2017, there were 2 mortgages in foreclosure totaling \$159,950 with an unamortized discount of \$68,781. At March 31, 2016, there were 3 mortgage in foreclosure totaling \$207,230 with an unamortized discount of \$86,883.

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.

In 2017 and 2016, there were 25 lots totaling \$518,328 and \$364,511, respectively. Included in the 2017 balance are five donated lots with an appraised value of approximately \$165,000. Pending approval by the City of Akron, HFHSC plans to split the five donated lots into nine lots to build homes for future qualified families.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

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 3 homes for resale totaling \$64,114 in 2017. There was 2 homes for resale totaling \$58,118 in 2016.

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 \$73,535 (2017) and \$66,041 (2016). 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>2017</u>	<u>2016</u>
Donated inventory	\$ 250,192	\$ 240,062
Purchased inventory	<u>12,360</u>	<u>9,611</u>
Total inventory	<u>\$ 262,552</u>	<u>\$ 249,673</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.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

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 \$300,139 (2017) and \$95,074 (2016).

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>2017</u>		<u>2016</u>	
Homes Under Construction - Beginning of Year	4	\$ 307,450	-	\$ -
Additional costs incurred on beginning homes	-	177,809	-	-
Homes started during the year	8	507,928	8	829,494
Homes transferred during the year	<u>(5)</u>	<u>(605,498)</u>	<u>(4)</u>	<u>(522,044)</u>
Homes Under Construction - End of Year	<u>7</u>	<u>387,689</u>	<u>4</u>	307,450
Discount		<u>(197,721)</u>		<u>(156,800)</u>
Construction in progress - net		<u>\$ 189,968</u>		<u>\$ 150,650</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. The discount is recorded to reflect the economic benefit of the zero-interest-mortgage to the purchaser. There were no homes under lease in 2017 or 2016.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

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>2017</u>	<u>2016</u>
Land, buildings and improvements	\$ 2,234,324	\$ 2,166,512
Equipment	13,242	13,242
Office furniture	106,803	107,529
Vehicles	<u>207,160</u>	<u>197,704</u>
	2,561,529	2,484,987
Less: Accumulated depreciation	<u>(525,737)</u>	<u>(462,635)</u>
	<u>\$ 2,035,792</u>	<u>\$ 2,022,352</u>
Depreciation Expense	<u>\$ 81,554</u>	<u>\$ 88,374</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.

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:

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.

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 year amounts were reclassified to conform with the current year presentation.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

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 15, 2017, which is the date the financial statements were available to be issued.

2 Long-Term Debt

	Current Portion	Total	
	<u>2017</u>	<u>2017</u>	<u>2016</u>
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.	\$ 45,107	\$ 133,191	\$ 176,337
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.	1,221	8,493	9,763
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.	1,221	8,493	9,762

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

2 Long-Term Debt, Continued

	<u>Current Portion</u>	<u>Total</u>	
	<u>2017</u>	<u>2017</u>	<u>2016</u>
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 \$1,084,237 at March 31, 2017.	42,860	42,860	97,814
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 \$147,480 at March 31, 2017.	-	150,000	150,000
Note payable was entered into by the Organization on April 30, 2009, amounting to \$407,800. Principal and interest payments were due quarterly in the amount of \$17,528. The note bore interest at 5.30% and was paid off June 1, 2016.	-	-	17,297
	<u>\$ 90,409</u>	343,037	460,973
Less: Current Portion		<u>90,409</u>	<u>117,933</u>
Total Long-Term Portion		<u>\$ 252,628</u>	<u>\$ 343,040</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

5 Related Party Transactions

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

HFHSC tithes to International amounted to \$40,000 (2017) and \$4,000 (2016).

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 \$2,525 (2017) and \$1,550 (2016).

International assesses an affiliate branding fee to all of the affiliates. HFHSC's branding fees amounted to \$15,000 (2017) and \$15,000 (2016).

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 Retirement Plan

During 2017, the Organization implemented a Simple IRA plan covering substantially all employees. The Organization matches employees' contributions of up to 3% of compensation or \$12,500, whichever is less. The Organization's contributions to the Plan were \$3,989 in 2017.

8 Conditional Grants

HFHSC received a conditional grant from Summit County ("County") for the Home Investment Partnership Program ("HOME"). A total amount of \$0 (2017) and \$120,000 (2016) 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 \$21,893 (2017) and \$129,000 (2016). 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 \$160,000 (2017) and \$120,000 (2016) 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 \$160,000 (2017) and \$140,000 (2016) 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 (2017) and \$55,000 (2016) 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 \$38,670 (2017) and \$44,000 (2016).

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

8 Conditional Grants, Continued

HFHSC has a fourth conditional grant with the Summit County Land Reutilization Corporation (“SCLRC”). A total amount of \$56,000 was awarded (2017) and \$55,000 (2016) contingent upon deconstruction services as assigned by SCLRC. Approximately \$18,000 (2017) and \$16,000 (2016) of revenue has been recognized under this grant.

HFHSC has a new conditional grant with the City of Cuyahoga Falls through November 2017. A total amount of \$50,000 was awarded in 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). The Organization did not recognize any revenue for this grant during the current fiscal year.

9 Subsequent Events

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. The Organization also signed two HOME contracts with the County of Summit, one is dated April 2017 and the other is May 2017 each for new home construction.