

Habitat for Humanity/Lenawee County, Inc.
Financial Statements
Year Ended June 30, 2017



Habitat for Humanity/Lenawee County, Inc.

Financial Statements

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Independent Auditor's Report

To the Board of Directors
Habitat for Humanity/Lenawee County, Inc.
Adrian, Michigan

We have audited the accompanying financial statements of Habitat for Humanity/Lenawee County, Inc. (Habitat), a Nonprofit Organization, which comprise the statement of financial position as of June 30, 2017, and the related statements of activities 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 /Lenawee County, Inc. 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.

Your partner in financial statement auditing and all things accounting.

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To the Board of Directors
Habitat for Humanity/Lenawee County, Inc.
Adrian, Michigan

Report on Summarized Comparative Information

We have previously audited Habitat's 2016 financial statements, and I expressed an unmodified audit opinion on those audited financial statements in our report dated November 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Meredith Francis, CPA, P.C.

Adrian, Michigan
November 20, 2017

Habitat for Humanity/Lenawee County, Inc.

Statements of Financial Position

June 30, 2017 and 2016

	<u>2017</u>	<u>2016</u>
Assets		
Current assets:		
Cash and cash equivalents	\$ 16,591	\$ 14,623
Restricted cash	15,638	17,352
Escrow accounts	23,947	24,814
Accounts receivable	-	12,000
Inventory	23,036	15,337
Current portion of mortgage and land contracts receivable	84,157	91,100
	<u>163,369</u>	<u>175,226</u>
Total current assets	163,369	175,226
Noncurrent portion of mortgage and land contracts receivable (net of discount of \$399,491 and \$439,346 respectively)	394,598	428,169
Land	8,525	8,611
Construction in progress	183,257	288,860
Leasehold improvements	101,348	101,348
Office equipment	5,043	2,061
Equipment	12,836	12,836
Vehicle	15,120	15,120
Less: accumulated depreciation	(26,777)	(16,709)
	<u>857,319</u>	<u>1,015,522</u>
Total assets	<u>857,319</u>	<u>1,015,522</u>
Liabilities and Net Assets		
Current liabilities:		
Accounts payable	47,427	91,238
Accrued expenses	6,181	8,894
Escrow payable	23,940	24,814
Servicing loans	3,835	3,835
Line of credit	115,712	192,672
Capital lease	828	681
Current portion of loan payable	20,967	20,400
	<u>218,890</u>	<u>342,534</u>
Total current liabilities	218,890	342,534
Noncurrent portion of capital lease	737	1,565
Noncurrent portion of loan payable	5,332	26,299
	<u>224,959</u>	<u>370,398</u>
Total liabilities	224,959	370,398
Net assets:		
Temporarily restricted	7,392	13,258
Unrestricted	624,968	631,867
	<u>632,360</u>	<u>645,125</u>
Total net assets	632,360	645,125
Total liabilities and net assets	<u>\$ 857,319</u>	<u>\$ 1,015,523</u>

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Statements of Activities

**For the Year Ended June 30, 2017
With Comparative Totals for the year ended June 30, 2016**

	Unrestricted	Restricted	2017	2016
Revenues				
Contributions and grants:				
Businesses	\$ 6,881	-	\$ 6,881	\$ 9,840
Foundations	-	72,825	72,825	44,591
Churches	1,731	939	2,670	3,181
Individuals	21,676	-	21,676	19,731
Grants	-	84,603	84,603	48,261
Program income:				
Home sales and projects	209,676	-	209,676	110,311
Restore sales	340,607	-	340,607	326,671
Mortgage discount	39,855	-	39,855	79,200
Late fees	602	-	602	766
Special events:				
Dinner and pasty project	17,771	-	17,771	16,548
Other events	34,795	-	34,795	34,443
Gain (loss) on disposition of assets	6,251	-	6,251	(48,456)
Interest income	2,420	-	2,420	1,474
Contributed services	12,535	-	12,535	33,098
Contributed materials	33,000	-	33,000	
Other income	6,359	-	6,359	9,973
Net assets released from restriction	164,233	(164,233)	-	-
Total revenues	898,392	(5,866)	892,526	689,632
Expenses				
Programs:				
Home construction	512,374		512,374	387,400
Restore	260,659		260,659	316,363
International tithe	5,556		5,556	7,278
Total programs	778,589	-	778,589	711,041
General and administrative	44,373		44,373	27,649
Fund-raising	82,329		82,329	85,199
Total expenses	905,291	-	905,291	823,889
Change in net assets	(6,899)	(5,866)	(12,765)	(134,257)
Net assets - beginning of year	631,867	13,258	645,125	779,382
Net assets - end of year	\$ 624,968	\$ 7,392	\$ 632,360	\$ 645,125

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Statements of Functional Expenses

**For the Year Ended June 30, 2017
With Comparative Totals for the year ended June 30, 2016**

	<u>Home Construction</u>	<u>Restore</u>	<u>Total Programs</u>	<u>General & Administrative</u>	<u>Fund Raising</u>	<u>Total 2017</u>	<u>Total 2016</u>
Cost of sales	\$ 301,545	\$ 3,539	\$305,084	\$ -	\$ -	\$ 305,084	\$ 160,232
Salaries	79,695	128,928	208,623	20,987	46,065	275,675	256,819
Payroll taxes	12,597	11,886	24,483	1,344	3,864	29,691	17,100
Employee benefits	7,740	12,133	19,873	-	4,644	24,517	18,867
Professional fees	10,752	1,849	12,601	1,701	-	14,302	26,069
Client assistance	38,500	-	38,500	-	-	38,500	32,500
Occupancy	6,624	40,461	47,085	725	1,450	49,260	77,852
Interest expense	-	402	402	11,343	6	11,751	16,347
Printing, postage & publications	638	-	638	100	4,893	5,631	1,092
Office supplies	5,204	2,860	8,064	1,040	-	9,104	9,820
Information technology	75	92	167	152	4,355	4,674	-
Telephone and internet	2,570	1,416	3,986	-	180	4,166	4,393
Travel expense	640	12,942	13,582	-	-	13,582	11,998
Meetings	9,480	1,123	10,603	3,909	-	14,512	8,049
Depreciation	1,224	8,536	9,760	308	-	10,068	12,188
Insurance	2,395	3,544	5,939	2,164	-	8,103	33,474
Membership fees	6,905	-	6,905	110	-	7,015	6,187
Mortgage discount amortization	-	-	-	-	-	-	20,414
Bank charges	3,838	4,883	8,721	-	428	9,149	9,762
Public relations	16,014	6,668	22,682	110	897	23,689	25,991
Licenses and fees	-	20	20	-	-	20	50
Utilities	-	6,148	6,148	-	-	6,148	8,230
Supplies	728	3,632	4,360	-	15,547	19,907	20,837
Equipment lease	-	6,331	6,331	-	-	6,331	-
Repairs and maintenance	-	204	204	-	-	204	9,984
Bad debt expense	-	-	-	-	-	-	1,916
Contributed services	1,500	1,500	3,000	-	-	3,000	20,568
Miscellaneous	3,710	1,562	5,272	380	-	5,652	5,872
Total expenses	<u>\$ 512,374</u>	<u>\$ 260,659</u>	<u>\$773,033</u>	<u>\$ 44,373</u>	<u>\$ 82,329</u>	<u>\$ 899,735</u>	<u>\$ 816,611</u>

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Statements of Cash Flows

**For the Year Ended June 30, 2017
With Comparative Totals for the year ended June 30, 2016**

Increase (Decrease) In Cash

	<u>2017</u>	<u>2016</u>
Cash flows from operating activities:		
Cash received from donors	\$ 105,766	\$ 61,869
Cash from special events	52,566	50,991
Cash from program income and grants	688,002	494,751
Cash from other	6,359	9,973
Interest received	2,420	1,474
Interest paid	(11,751)	(16,347)
Cash paid for program and other expenses	<u>(934,695)</u>	<u>(674,618)</u>
Net cash used in operating activities	<u>(91,333)</u>	<u>(71,907)</u>
Cash flows from investing activities:		
Home purchases	(97,492)	(78,310)
Property asset purchases	(2,982)	(112,384)
Proceeds from sale of assets	<u>290,109</u>	<u>289,523</u>
Net cash provided by investing activities	<u>189,635</u>	<u>98,829</u>
Cash flows from financing activities:		
Repayment of line of credit and capital lease	(77,641)	51,550
Escrow accounts	(7)	(176)
Proceeds (redemption) of loan principal	<u>(20,400)</u>	<u>(118,663)</u>
Net cash used in financing activities	<u>(98,048)</u>	<u>(67,289)</u>
Increase (decrease) in cash	254	(40,367)
Cash at beginning of year	<u>31,975</u>	<u>72,342</u>
Cash at end of year	<u><u>\$ 32,229</u></u>	<u><u>\$ 31,975</u></u>
Non-cash activity:		
Cost of goods sold (not shown in above figures)	9,535	3,247

The accompanying notes are an integral part of this statement.

Habitat for Humanity/Lenawee County, Inc.

Statements of Cash Flows

For the Year Ended June 30, 2017
With Comparative Totals for the year ended June 30, 2016

Reconciliation of Change in Net Assets to Net Cash
Used in Operating Activities

	<u>2017</u>	<u>2016</u>
Change in net assets	\$ (12,765)	\$ (134,257)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	10,068	12,188
Bad debt expense	-	1,916
Mortgage discount	(39,855)	(79,200)
Amortization expense	-	20,414
Contributed services and materials included in projects	(42,535)	(12,530)
	(6,251)	48,456
(Increase) decrease in:		
Accounts receivable	52,514	8,742
Restricted cash	1,714	(15,474)
Inventory	(7,699)	6,976
Increase (decrease) in:		
Accounts payable	(43,811)	68,796
Accrued expenses	(2,713)	2,066
	<u>(78,568)</u>	<u>62,350</u>
Total adjustments	(78,568)	62,350
Net cash used in operating activities	<u>\$ (91,333)</u>	<u>\$ (71,907)</u>

The accompanying notes are an integral part of this statement.

Habitat For Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2017

1. Summary of Significant Accounting Policies

Habitat for Humanity/Lenawee County, Inc. (“Habitat”) is a Michigan Non-profit Organization. Habitat for Humanity envisions a world where everyone has a decent place to live. The mission of Habitat is *“Seeking to put God’s love into action, Habitat for Humanity for Lenawee County brings people together to build homes, communities and hope.”* The non-profit organization builds, renovates and repairs homes in Lenawee County, Michigan. Habitat’s major sources of revenue are home sales, philanthropic contributions and ReStore proceeds.

The financial statements of Habitat have been prepared in accordance with generally accepted accounting principles on the accrual basis.

For purposes of the statement of cash flows, cash is defined as cash on hand, in banks and investments purchased with a maturity within three months of the date of purchase.

Purchased inventory is recorded at the lower of cost or market determined by the specific identification method. Inventories represent building materials and materials to be sold in the ReStore. Donated inventory items are not valued until the time of sale.

Habitat capitalizes and depreciates building improvements and equipment and furniture that it believes will provide benefit to future years. Property and equipment are valued at cost and depreciated over their estimated useful lives using the straight-line method. Donated property and equipment are valued at fair value at the date of contribution.

Habitat reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Contributed services, materials and facility use are reflected in the financial statements for significant contributions of services, items or facility use that would otherwise be purchased. These are reported at their estimated fair value.

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 the reported assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

2. Reporting Entity

Habitat for Humanity/Lenawee County, Inc. is a tax-exempt corporation under Section 501(c)(3) of the Internal Revenue Code.

According to the Internal Revenue Service’s statute of limitations, there are three years, 2014-2016, of Form 990 information returns that are potentially subject to examination.

Habitat For Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2017

3. Deposits and Investments

Deposits

Custodial Credit Risk-Deposits: Custodial credit risk is the risk that in the event of a bank failure, the deposits may not be returned to Habitat. Habitat does not have a deposit policy for custodial credit risk. As of June 30, 2017, Habitat's bank balance of \$39,128 had no exposure to custodial credit risk. All deposits were fully insured as the balance is below the FDIC threshold of \$250,000.

4. Inventory

Inventory consists of the following as of June 30, 2017 and 2016:

	<u>2017</u>	<u>2016</u>
Construction materials	\$ 12,705	\$ 12,705
Purchased inventory	10,331	2,632
Total	<u>\$ 23,036</u>	<u>\$ 15,337</u>

5. Mortgage, Land Contract and Project Receivables

Habitat constructs or renovates houses and then sells them to families without any interest charge. Receivables are reported at cost, equal to the sales price of the home, and secured by the property. In the event that a family defaults on the mortgage or land contract, Habitat reacquires the property and sells it to another family. A mortgage loan is issued with a face value equal to the purchase price of the house. At the point of sale, a mortgage discount is estimated using the current market interest rate of similar mortgages and amortized over the life of the mortgage.

The current portion of contracts receivable at the year end consists of the principal payments due during the following year. Management estimates the amount of doubtful accounts based on historical measures and existing economic conditions. When receivables are deemed uncollectible, they are written off. At June 30, 2017 and 2016, total current mortgage, land contracts and repair projects receivable are \$869,603, \$1,232 and \$7,411, and \$939,851, \$7,328 and \$11,436, respectively, which are deemed collectible.

Habitat For Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2017

5. Mortgage, Land Contract and Project Receivables

An analysis follows:

	Current	30 Days	Past Due 60 Days	90+ Days	Total
Mortgages receivable	\$ 623,558	\$ 137,569	\$ 39,232	\$ 69,244	\$ 869,603
Land contracts receivable	1,232	-	-	-	1,232
Repair projects receivable	3,177	-	-	4,234	7,411
Total receivables	\$ 627,967	\$ 137,569	\$ 39,232	\$ 73,478	\$ 878,246

6. Capital Assets

A summary of capital assets follows:

	Balance July 1, 2016	Additions	Deletions	Balance June 30, 2017
Nondepreciable assets:				
Land	\$ 8,611	\$ 1,163	\$ 1,249	\$ 8,525
Construction in progress	288,860	183,257	288,860	183,257
Total nondepreciable assets	297,471	184,420	290,109	191,782
Depreciable assets:				
Leasehold improvements	101,348		-	101,348
Office equipment	2,061	2,982	-	5,043
Equipment	12,836	-	-	12,836
Vehicle	15,120	-	-	15,120
Total depreciable assets	140,600	2,982	-	134,347
Less: accumulated depreciation	(16,709)	(10,068)	-	(26,777)
Net capital assets	\$ 421,362	\$ 177,334	\$ 290,109	\$ 299,352

Current year additions include improvements to the building used for the ReStore and scaffolding purchased for the Home Construction program. The former ReStore building was sold during the fiscal year. Depreciation expense at June 30, 2017 and 2016 was \$10,068 and \$10,994, respectively.

7. Line of Credit

Habitat has established a renewable line of credit with First Federal Bank of \$200,000 at an interest rate of 5.25%. The line of credit is due March 31, 2018 however, Habitat expects to refinance this line of credit and any balance owed at the due date. At June 30, 2017, the balance of this line of credit was \$115,712. The interest expense for the years ended June 30, 2017 and 2016 was \$4,814 and \$8,246, respectively.

Habitat For Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2017

8. Loans Payable

Habitat is obligated by a loan from the Adrian Dominican Sisters. The rate of interest is 2.75% with a maturity date of August 15, 2018. Payments are due quarterly based on an agreed upon amortization schedule. The interest expense related to this loan for the years ended June 30, 2017 and 2016 was \$1,075 and \$1,627, respectively.

A schedule of payments follows:

Year Ending June 30,	Principal	Interest	Total
2018	\$ 20,967	\$ 508	\$ 21,475
2019	5,332	37	5,369
	<u>\$ 26,299</u>	<u>\$ 545</u>	<u>\$ 26,844</u>

9. Operating Leases

Habitat is obligated by a lease for a copier. The 63-month lease began in August 2015 with monthly payments of \$250, which include a certain number of copies, overages are not included. Total rental expense including maintenance for the year ended June 30, 2017 and 2016 was \$3,332 and \$3,095, respectively.

Habitat leases space for its operations. Its office space is \$850 per month on a month to month basis. The ReStore is leased for a base rent of \$2,750 per month for a renewable term of five years ending April 2020, with no rent due the last two months of the lease. Habitat also pays for common area maintenance (CAM) evaluated annually. Total rental expense for the year ended June 30, 2017 and 2016 for both facilities, including CAM, was \$42,706 and \$50,913, respectively.

Habitat leases a postage meter for a 24-month term ending July 2018 for \$25 per month. The total rental expense for the year ended June 30, 2017 and 2016 was \$299 and \$299, respectively.

Habitat leases a forklift for its ReStore. The 60-month term ends August 2020 with payments of \$399.42 per month. Total rental expense for the year ending June 30, 2017 and 2016 was \$4,793 and \$4,084, respectively.

A schedule of future operating lease payments follows:

Year Ending June 30,	Office	ReStore	Copier	Postage Meter	Forklift	Total
2018	\$ 850	\$ 33,000	\$ 3,000	\$ 299	\$ 4,793	\$ 41,942
2019	-	33,000	3,000	25	4,793	40,818
2020	-	22,000	3,000	-	4,793	29,793
2021	-	-	1,000	-	799	1,799
	<u>\$ 850</u>	<u>\$ 88,000</u>	<u>\$ 10,000</u>	<u>\$ 324</u>	<u>\$ 15,178</u>	<u>\$ 114,352</u>

Habitat For Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2017

10. Capital Lease

Habitat leases a point-of-sale (POS) system for its ReStore. The lease includes a provision to own the equipment at the end of the term, which Habitat intends to purchase. The value of the equipment is \$2,396 with monthly payments of \$90 that end March 2019. The interest expense related to this lease was \$116 for the year ended June 30, 2017.

A schedule of payments follows:

Year Ending June 30,	Lease Principal	Interest	Total
2018	\$ 828	\$ 236	\$ 1,064
2019	737	62	799
	<u>\$ 1,565</u>	<u>\$ 298</u>	<u>\$ 1,863</u>

11. Temporarily Restricted Net Assets

Habitat's temporarily restricted net assets of \$1,727 are available for the Home Construction program and \$5,665 are available for the office renovations in the next fiscal year.

12. Contributed Services, Materials and Facility Use

Habitat utilizes a number of volunteers for its home construction and other support services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, were provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation are recognized as revenue and expense.

Habitat received contributed auditing services valued at \$3,000, shown as revenue and expense in the financial statements. The contributed services of board members are determined to be immeasurable for financial statement purposes.

A donation of materials for the ReStore is not valued or carried in inventories. The items are considered to have no value or indeterminate value until someone purchases them. Two properties with a combined value of \$33,000 were donated and added to Construction in Process, representing future construction projects.

Habitat For Humanity/Lenawee County, Inc.

Notes to Financial Statements

June 30, 2017

13. Functional Allocation of Expenses

The cost of providing various programs and activities has been summarized on a functional basis in the Statement of Functional Expenses. Indirect costs as well as direct costs have been allocated among the programs and activities benefited.

14. Concentration of Risk

Habitat operates in Lenawee County, Michigan and is affected by the state of the local economy.

15. Subsequent Events

Habitat was notified that it was a beneficiary to an estate in the spring of 2017. After the end of the fiscal year, but before the issuance of this report, Habitat learned that the amount of the bequest was \$140,000, and will be included in the financial statements in the next fiscal year.

Two receivables held by Habitat are in the breach period as of the date of this report. The board is aware and overseeing the collection process and potential default.

Management has reviewed subsequent events up to November 20, 2017, the date of this report, which is the date the financial statements were available to be issued.