Habitat for Humanity of Monroe County, Inc.

Financial Statements
June 30, 2018 and 2017, and
Independent Auditors' Report

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

June 30, 2018 and 2017

Contents

BARNES DENNIG
Accounting • Tax • Business Insight

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Independent Auditors' Report

To the Board of Directors
Habitat for Humanity of Monroe County, Inc.
Bloomington, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Monroe County, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2018 and 2017, and the related statements of 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 entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Monroe County, Inc. as of June 30, 2018 and 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.

Barnes, Dennig & Co., Ltd.

November 9, 2018
Indianapolis, Indiana

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

Statements of Financial Position
June 30, 2018 and 2017

	2018	2017
Assets		
Cash and cash equivalents	$ 473,075	$ 265,856
Homes for sale or under construction	377,818	590,657
Other assets	19,144	19,373
Investments	83,606	67,713
Land held for development	1,103,745	1,176,435
Mortgages receivable	4,604,000	4,089,123
Property and equipment	147,969	161,485
Total assets	$ 6,809,357	$ 6,370,642
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 50,083	$ 10,028
Accrued expenses	62,441	81,748
Line of credit	303,120	-
Notes payable	412,928	402,002
Total liabilities	828,572	493,778
Unrestricted net assets	5,980,785	5,876,864
Total liabilities and net assets	$ 6,809,357	$ 6,370,642

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

Statements of Activities
Year Ended June 30, 2018 and 2017

	2018	2017
Revenues and support		
Contributions	$ 1,381,847	$ 1,059,839
Home sales (net of imputed interest)	1,254,246	1,196,873
Merchandise sales	682,145	701,379
Grant revenue	151,076	164,498
Other	57,556	98,248
Total revenue and support	3,526,870	3,220,837
Expenses		
Program services:		
Habitat	2,433,986	1,928,997
Restore	788,799	634,802
Management and administrative	47,340	38,035
Fundraising	152,824	124,476
Total expenses	3,422,949	2,726,310
Change in net assets	103,921	494,527
Net assets - beginning of year	5,876,864	5,382,337
Net assets - end of year	$ 5,980,785	$ 5,876,864

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Statement of Functional Expenses
Year Ended June 30, 2018

	Program Services					
	Habitat	Restore	Total Program Services	Management and Administrative	Fundraising	Total
Cost of homes sold	$ 1,486,497	$ -	$ 1,486,497	$ -	$ -	$ 1,486,497
Salaries and wages	578,396	292,851	871,247	29,727	89,898	990,872
House Sponsorship Tithes	-	202,100	202,100	6,450	6,450	215,000
Rental expense	-	174,585	174,585	-	34,146	208,731
Contributions	123,500	-	123,500	-	-	123,500
Travel	41,998	761	42,759	1,424	3,291	47,474
Vehicle expense	10,590	24,518	35,108	1,135	1,606	37,849
Insurance	24,503	8,664	33,167	1,094	2,183	36,444
Professional fees	32,726	-	32,726	1,091	2,545	36,362
Repairs and maintenance	4,766	19,072	23,838	768	979	25,585
Computer support	16,745	5,119	21,864	751	2,420	25,035
Other expenses	8,339	14,020	22,359	725	1,097	24,181
Advertising	20,141	2,374	22,515	-	-	22,515
Utilities	7,635	12,232	19,867	645	984	21,496
Depreciation	10,914	7,625	18,539	607	1,092	20,237
Postage	15,997	82	16,079	535	1,247	17,861
Mortgage servicing fees	15,966	-	15,966	532	1,242	17,740
Bank service fees	14,881	150	15,031	502	1,163	16,695
Telephone	-	13,935	13,935	445	445	14,824
Office supplies	4,437	4,849	9,286	303	500	10,089
Training	8,434	335	8,770	291	666	9,727
Temporary help	4,541	-	4,541	158	580	5,279
Dues and memberships	-	3,682	3,682	-	-	3,682
Interest expense	2,980	-	2,980	99	232	3,311
Printing	-	1,846	1,846	59	59	1,963
	$ 2,433,986	$ 788,799	$ 3,222,785	$ 47,340	$ 152,824	$ 3,422,949

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Statement of Functional Expenses
Year Ended June 30, 2017

	Program Services					
	Habitat	Restore	Total Program Services	Management and Administrative	Fundraising	Total
Cost of homes sold	$ 1,063,339	$ -	$ 1,063,339	$ -	$ -	$ 1,063,339
Salaries and wages	544,873	257,720	802,593	27,412	83,701	913,706
Rental expense	-	174,076	174,076	-	20,287	194,363
Contributions	104,250	-	104,250	-	-	104,250
Travel	29,636	94	29,730	991	2,308	33,029
Vehicle expense	10,452	17,396	27,848	903	1,368	30,119
Insurance	29,661	5,876	35,537	1,177	2,495	39,209
Professional fees	17,889	-	17,889	596	1,391	19,876
Repairs and maintenance	14,660	20,248	34,908	1,135	1,786	37,829
Computer support	7,089	3,274	10,363	354	1,085	11,802
Other expenses	4,959	22,425	27,384	881	1,102	29,367
Advertising	10,804	83,343	94,147	-	-	94,147
Utilities	8,035	14,042	22,077	716	1,073	23,866
Depreciation	11,925	13,948	25,873	842	1,372	28,087
Postage	16,646	329	16,975	565	1,305	18,845
Mortgage servicing fees	15,453	-	15,453	515	1,202	17,170
Bank service fees	15,619	145	15,764	526	1,220	17,510
Telephone	-	14,538	14,538	464	464	15,466
Office supplies	4,187	1,975	6,162	203	389	6,754
Training	12,631	1,955	14,586	483	1,044	16,113
Temporary help	6,289	-	6,289	219	804	7,312
Dues and memberships	-	2,372	2,372	-	-	2,372
Interest expense	600	-	600	20	47	667
Printing	-	1,046	1,046	33	33	1,112
	$ 1,928,997	$ 634,802	$ 2,563,799	$ 38,035	$ 124,476	$ 2,726,310

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Statements of Cash Flows
Years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities		
Change in net assets	$ 103,921	$ 494,527
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	20,237	28,087
Unrealized gains	(12,883)	(4,743)
Discounts and amortization of mortgages receivable	349,657	416,685
Changes in:		
Disposal of assets	-	107,937
Homes for sale or under construction	212,839	(243,697)
Land held for development	72,682	169,438
Other assets	229	17,213
Accounts payable and accrued expense	20,748	(200,027)
Net cash provided by operating activities	767,430	785,420
Cash flows from investing activities		
Purchase of investments	(3,002)	(33,690)
Originations of mortgages receivable	(1,548,782)	(1,287,847)
Payments on mortgages receivable	684,248	539,677
Purchase of property and equipment	(6,721)	(361,834)
Net cash used by investing activities	(874,257)	(1,143,694)
Cash flows from financing activities		
Proceeds from line of credit	303,120	-
Proceeds from notes payable	45,000	-
Payments on notes payable	(34,074)	(23,192)
Net cashprovided (used) by financing activities	314,046	(23,192)
Net change in cash and cash equivalents	207,219	(381,466)
Cash and cash equivalents - beginning of year	265,856	647,322
Cash and cash equivalents - end of year	$ 473,075	$ 265,856
Interest payments during the year	$ 3,311	$ 667

See accompanying notes to financial statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Habitat for Humanity of Monroe County, Inc. (HFH) is an independent and locally governed tax exempt non-profit Indiana Corporation formed in 1988 for the purpose of providing residential housing for low-income families who have been residents of Monroe County and adjacent counties for at least one year.

HFH works to end poverty housing in Monroe County and adjacent counties by creating opportunities for home ownership in partnership with low-income families and by making safe, decent, affordable housing a matter of community conscience and action. HFH builds market-quality homes utilizing volunteer labor and sells homes to qualified low-income families for minimal cash down and utilizing 15-25 year non-interest bearing mortgages. Families who purchase homes are identified by the Family Selection Committee who uses predetermined criteria which does not consider race, gender, nationality, age, handicap, religion, marital status or source of personal income. An approved applicant must provide 250 hours of "sweat equity" by participating in a significant amount of labor in its home construction program and/or in some other form of community service. In addition, each buyer must maintain the home as required by the mortgage contract and participate in HFH's nurturing program, which provides pre-purchase and post-purchase homeowner education and counseling.

In addition to home building activities, HFH also operated a retail thrift operation (dba ReStore). ReStore specializes in selling surplus new and used building and home improvement materials, appliances and furniture to the public. ReStore receives donated usable materials from retail businesses, contractors, individuals and other organizations. Costs associated with operation of ReStore are expensed in program-ReStore in the accompanying statement of activities and changes in net assets. All net proceeds from the operation of ReStore help support and enhance HFH's non-profit mission-related activities.

Basis of Accounting

The financial records have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America. Unrestricted net assets include all assets over which HFH has full discretion as to use. Temporarily restricted net assets include contributions whose use by HFH is limited by donor imposed stipulations either as to use or timing. As the restrictions are met, the net assets are released from restrictions and included in unrestricted net assets.

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Cash

For purposes of the statements of cash flows, HFH considers all liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market accounts. HFH maintains its cash in bank accounts which, at times, may exceed federally insured limits. HFH has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risks on cash and cash equivalents.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

Mortgages Receivable

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. Most of the mortgages mature in 18-25 years. The receivable has been discounted using an imputed interest rate of 7.57% based upon Habitat for Humanity International averages for low income housing. Interest income is recorded over the lives of the mortgages using the effective interest method. HFH's estimate for allowance of loan losses is zero. HFH has had historical success in collecting and makes every effort for homebuyers to arrange repayment even when experiencing financial difficulties. HFH also believes the homes securing the notes are sufficient collateral to not experience loan losses.

Investments

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investments at June 30, 2018 and 2017 consisted of exchange-traded funds and are valued using Level 1 inputs in the fair value hierarchy. Investments primarily consist of the Pat Wilson Education Fund "the fund" which is restricted to assist in encouraging secondary education opportunities for the children of Habitat families in Monroe County. As of June 30, 2018, no amount has been appropriated for expenditure. The fund is open to donations from other donors. Board can modify the fund and expenditures if circumstances or opportunities warrant change.

Inventory

ReStore donated materials are not valued or included in inventory and are reported as net income when sold.

Assets Held for Development

Assets held for development are reported at cost or if donated, at fair market value at date of donation. Once development is complete, the properties are sold to arranged buyers with selling price based upon a budgeted formula with excess basis expensed as program cost.

Property and Equipment

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as unrestricted revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as temporarily or permanently restricted revenue and net assets. When a donor 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. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as unrestricted revenue.

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (CONTINUED)

In-Kind Donations

The Organization receives certain in-kind donations during the year, which are recorded at fair market value as contribution revenue and an expense in the financial statements. For the years ended June 30, 2018 and 2017, $209,280 and $60,908, respectively, were received in in-kind donations.

Functional Allocation of Expenses

The costs of supporting the various programs and other activities have been summarized on a functional basis in the statements of activities. Certain costs have been allocated among the program, management and general and fundraising categories based upon estimates of the time spent by the Organization's personnel.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Indiana law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization's IRS Form 990 is subject to review and examination by Federal and state authorities. The Organization believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

Advertising Costs

Advertising costs are expensed as incurred. Costs totaled $22,515 and $94,147 for the year ending June 30, 2018 and 2017, respectively.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of the revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

NOTE 2 MORTGAGES RECEIVABLE

Mortgages receivable as of June 30, 2018 were $8,224,739 and were valued, net of present value amortization of $3,620,739 on the statement of financial position. Mortgage receivable as of June 30, 2017 were $7,360,205 and were valued, net of present value amortization of $3,271,082 on the statement of financial position.

HFH also records a second mortgage on properties sold below market value to protect the value of the sale. These mortgages are valued at $0 as collection is unlikely and are not included in these financial statements.

NOTE 3 FUNDS HELD BY COMMUNITY FOUNDATION

Certain donors have transferred assets to the Community Foundation of Bloomington and Monroe County. The funds are designated to HFH. Since the Community Foundation of Bloomington and Monroe County retains variance power over these funds, they are not recorded on HFH's financial statements. At June 30, 2018 and 2017, the fair value of the funds held by Community Foundation of Bloomington and Monroe County was approximately $45,000.

NOTE 4 PROPERTY AND EQUIPMENT

Property and equipment as of June 30 consisted of the following:

	2018	2017
Leasehold Improvements	$ 203,080	$ 203,080
Equipment	38,012	31,980
Vehicles	136,313	135,313
Less accumulated depreciation	(229,436)	(208,888)
	$ 147,969	$ 161,485

NOTE 5 LINE OF CREDIT

HFH has a $1,000,000 revolving line of credit agreement. As of June 30, 2018 and 2017 $303,120 and $0, respectively, was borrowed against this line. The line is collateralized by substantially all of the HFH's assets. The outstanding balance at February 15, 2020 shall convert to a term note and lender shall not authorize further advances to borrower as of the date of conversion. The outstanding amount at February 15, 2020 is to be amortized for a fixed term of 10 years from the date of conversion and shall accrue interest at a rate of 4.5%.

NOTE 6 NOTES PAYABLE

As of June 30, 2018, notes payable consisted of the following:

	2018	2017
SHOP note 195001 (A)	$ 6,237	$ 7,125
SHOP note 152040 (B)	-	1,604
SHOP note 153023 (C)	-	8,808
SHOP note 211044 (D)	28,750	-
SHOP note 221045 (E)	16,250	-
SHOP note 181075 (F)	18,039	25,239
SHOP note 191035 (G)	1,788	2,496
SHOP note 192009 (H)	22,711	31,793
SHOP note 193005 (I)	16,035	21,375
SHOP note 194004 (J)	3,118	3,562
Note Payable John McDaniel (K)	300,000	300,000
	$ 412,928	$ 402,002

(A) During the year, HFH obtained a note from Habitat for Humanity International (loan no. 195001) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2021 and is unsecured.

(B) On September 29, 2011, HFH obtained a note from Habitat for Humanity International (loan no. 152040) which bears an interest rate of 0%. Monthly payments of $131 are required. The note matures on December 29, 2019 and is unsecured.

(C) On June 1, 2013, HFH obtained a note from Habitat for Humanity International (loan no. 153023) which bears an interest rate of 0%. Monthly payments of $781 are required. The note matures on September 1, 2021 and is unsecured.

(D) On July 1, 2017, HFH obtained a note from Habitat for Humanity International (loan no. 211044) which bears an interest rate of 0%. Monthly payments of $598 are required. The note matures on January 1, 2020 and is unsecured.

(E) On July 1, 2017, HFH obtained a note from Habitat for Humanity International (loan no. 221045) which bears an interest rate of 0%. Monthly payments of $598 are required. The note matures on January 1, 2020 and is unsecured.

(F) On December 4, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 181075) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2020 and is unsecured.

(G) On August 5, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 191035) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2020 and is unsecured.

(H) On August 5, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 192009) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2020 and is unsecured.

NOTE 6 NOTES PAYABLE (CONTINUED)

(I) On February 15, 2015, HFH obtained a note from Habitat for Humanity International (loan no. 193005) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on June 30, 2021 and is unsecured.

(J) During the year, HFH obtained a note from Habitat for Humanity International (loan no. 194004) which bears an interest rate of 0%. Monthly payments are not yet requited. The note matures on December 31, 2021 and is unsecured.

(K) During 2015, HFH extended a loan from an individual which bears an interest rate of 0%. Monthly payments are not required. The note matures July 1, 2019 at which point a balloon payment of $300,000 is required. The loan is secured by certain business assets.

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2019	$ 44,832
2020	344,832
2021	13,894
2022	4,039
2023	2,676
Thereafter	2,655
Total	$ 412,928

NOTE 7 OPERATING LEASE

HFH leases property for its Restore facility under a noncancelable operating lease that expires May 31, 2021. The lease can be extended for 2 five-year terms. Rent expense for this lease included in the statement of activities was approximately $173,000 for both of the years ended June 30, 2018 and 2017 . HFH is also responsible for real estate taxes under this lease. Future annual minimum lease payments are $173,000 for 2019 and 2020 and $72,000 for 2021.