

Hancock County Habitat for Humanity

Financial Statements

with Independent Accountants' Review Report

June 30, 2015 and 2014

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Hancock County Habitat for Humanity

Report on the Financial Statements

We have audited the accompanying financial statements of Hancock County Habitat for Humanity, which comprise the statement of financial position as of June 30, 2015, 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 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.

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Basis for Qualified Opinion

Hancock County Habitat for Humanity has recorded revenues of \$88,069 related to the sales at the ReStore, the completeness of which is not susceptible to satisfactory audit verification. Accordingly, our verification of these revenues was limited to the amounts recorded in the records of the Organization. Consequently, we were unable to determine whether any adjustments to these amounts were necessary.

Qualified Opinion

In our opinion, except for the possible effects of the matter described in the Basis for Qualified Opinion paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Hancock County Habitat for Humanity as of June 30, 2015, 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.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The Statements of Functional Expenses is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Roy & Associates, CPAs, P.A

Bangor, ME
May 03, 2016

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Hancock County Habitat for Humanity

STATEMENT OF FINANCIAL POSITION

June 30, 2015

ASSETS

Current assets:

Cash and cash equivalents	\$	9,772
Accounts receivable		
General receivables		7,799
Prepaid expenses		1,363
Homes under construction and held for sale		86,160
Mortgages receivable - current		52,018
Other current assets		2,556
Total current assets		<u>159,668</u>

Property and equipment:

Depreciable - net		<u>1,470</u>
Total property and equipment		<u>1,470</u>

Other assets:

Mortgages receivable - net of unamortized discount		366,692
Land held for sale		24,000
Total other assets		<u>390,692</u>

Total assets		<u>551,830</u>
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LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable		13,208
Accrued payroll		3,905
Accrued compensated absences		192
Line of credit		27,600
Total current liabilities		<u>44,905</u>

Noncurrent liabilities:

Accrued compensated absences, net of current amount		<u>1,731</u>
Total noncurrent liabilities		<u>1,731</u>

Total liabilities		<u>46,636</u>
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Net assets:

Temporarily restricted		5,454
Unrestricted		499,740
		<u>505,194</u>

Total liabilities & net assets	\$	<u><u>551,830</u></u>
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The accompanying notes are an integral part of the financial statements.

Hancock County Habitat for Humanity

STATEMENT OF ACTIVITIES

For the year ended June 30, 2015

	Temporarily Restricted	Unrestricted
SUPPORT & REVENUE		
Support:		
Cash contributions	\$ -	\$ 62,338
Fundraising	-	17,298
Grants	1,900	-
In-kind donations	-	13,664
	<u>1,900</u>	<u>93,300</u>
Revenue:		
Transfer of homes	-	68,397
ReStore	-	88,069
Interest	-	2
Mortgage loan discount amortization	-	27,733
Other	-	650
Net assets released from restriction	(5,446)	5,446
	<u>(5,446)</u>	<u>190,297</u>
 Total support & revenue	 <u>(3,546)</u>	 <u>283,597</u>
EXPENSES		
Program services:		
Housing	-	202,329
ReStore	-	76,899
Total program services	<u>-</u>	<u>279,228</u>
Support Services:		
Administration	-	22,596
Fundraising	-	10,724
Total support services	<u>-</u>	<u>33,320</u>
 Total expenses	 <u>-</u>	 <u>312,548</u>
 Change in net assets	 (3,546)	 (28,951)
Net assets - beginning	<u>9,000</u>	<u>528,691</u>
Net assets - ending	<u>\$ 5,454</u>	<u>\$ 499,740</u>
COMBINED CHANGE IN NET ASSETS		<u>\$ (32,497)</u>

The accompanying notes are an integral part of the financial statements.

Hancock County Habitat for Humanity

STATEMENT OF CASH FLOWS

For the year ended June 30, 2015

CASH FLOWS FROM OPERATING ACTIVITIES:

Increase (decrease) in Net Assets:

Unrestricted	\$ (28,951)
Temporarily restricted	(3,546)
	<u>(32,497)</u>

Adjustments to reconcile increase (decrease) in net assets to cash provided by operating activities:

Depreciation	981
Mortgage loan discount amortization	(27,733)
Sales to homeowners, net	(68,397)
Deed in lieu of foreclosure on mortgage receivable	60,640
(Increase)/ decrease in accounts receivable	(7,799)
(Increase)/ decrease in prepaid expenses	(86)
(Increase) / decrease in security deposits	(543)
(Increase) / decrease in homes under construction and held for sale	10,992
Increase/ (decrease) in accounts payable and accruals	706
Increase / (decrease) in accrued wages	(15,507)
Increase / (decrease) in other accrued expenses	1,923
Total adjustments	<u>(44,823)</u>
Net cash provided (used) by operating activities	<u>(77,320)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from short-term borrowing	<u>27,600</u>
Net cash provided (used) by financing activities	<u>27,600</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Purchase of property and equipment	(1,218)
Principal received on mortgage receivables	<u>36,768</u>
Net cash provided (used) by investing activities	<u>35,550</u>

Net increase (decrease) in cash (14,170)

Cash at the beginning of period 23,942

Cash at end of period \$ 9,772

The accompanying notes are an integral part of the financial statements.

Hancock County Habitat for Humanity

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Organization

Hancock County Habitat for Humanity (the Organization) a nonprofit corporation, was incorporated in the State of Maine in 1989. The Organization is an affiliate of Habitat for Humanity International (Habitat International), a nondenominational Christian not-for-profit organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness, and to make decent shelter a matter of conscience and action. Although Habitat International assists with informational and fiscal resources, the Organization is primarily responsible for its own operations.

The Organization is governed by an independent, volunteer Board of Directors who oversees the Organization's operations. The Organization builds and renovates affordable homes in the Hancock County area, through volunteer labor and with the assistance of future low income homeowner families. Future homeowners are required to contribute 250 hours per adult of their own labor into the building of their house as well as the houses of others. The Organization's houses are sold to low income families at below market cost, and financed by the Organization with no interest (0% APR) over 20 to 25 year terms. The home is also subject to a second mortgage, representing the difference between the market value of the home (as appraised at the time the mortgage is entered into) and the first mortgage charged to the homeowner. In the event the property is sold or otherwise transferred, refinanced or otherwise encumbered by the borrower, or if the borrower is in default under the conditions of the mortgage prior to the expiration of its term, the second mortgage becomes due and Habitat, as the lender, may collect a share of the "Appreciation in Value" of the property. Otherwise, the homeowner earns any equity in the home above the original market value.

The Organization's program is funded through contributions, grants, and in-kind donations from individuals, foundations, corporations and public agencies and religious organizations.

B. Basis of Accounting

The Organization prepares its financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when earned and expenses are recognized when the obligations are incurred.

Hancock County Habitat for Humanity

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

C. Financial Statement Presentation

The financial statements have been prepared in accordance with FASB Accounting Standards Codification (“FASB ASC”) No. 958, *“Not-for-Profit Entities – Presentation of Financial Statements.”* Under FASB ASC No. 958, the Organization is required to report information regarding its financial position and activities according to the following three classes of net assets:

- Unrestricted net assets - represent expendable resources that are available for operations at management’s discretion.
- Temporarily restricted net assets - represent resources restricted by donors as to purpose or by time.
- Permanently restricted net assets - represent resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Organization. As of June 30, 2015, the Organization did not have any permanently restricted net assets.

D. Use of Estimates

The process of preparing financial statements in conformity with generally accepted accounting principles requires the use of estimates and assumptions by management regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

E. Income Taxes

The Organization is an exempt organization for federal and state income tax purposes under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. The Organization is not classified as a private foundation. The Organization regularly reviews and evaluates its tax positions taken in previously filed information returns and as reflected in its financial statements, with regard to issues affecting its tax exempt status, unrelated business income, and related matters. The Organization believes that it has appropriate support for any tax positions taken affecting its annual filing requirements, and as such, does not have any uncertain tax positions that are material to the financial statements

The Organizations tax returns are subject to federal and state review by taxing authorities for fiscal years ended June 30, 2015, 2014, and 2013.

The Organization is subject to federal and state payroll taxes and is required to file the appropriate tax returns. Management believes that all required returns have been filed in a timely manner as of June 30, 2015.

Hancock County Habitat for Humanity

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

F. Mortgages Receivable

Mortgages receivable consist of primary non-interest bearing mortgages, secured by real estate and payable in monthly installments over 20 to 25 year terms. The mortgages are discounted based upon the prevailing market rates for low income housing at the inception of the mortgage. The discount is amortized on a straight-line basis over the term of the mortgage.

In addition to the primary mortgage on each property, homeowners agree to an additional mortgage for the difference between the primary mortgage and the fair value of the real estate as determined by an appraiser. This mortgage is non-interest bearing, requires no monthly payments. The second mortgage represents the excess of the market value over the original loan amount of each home sold. The second mortgage only becomes due in the event the property is sold or otherwise transferred, refinanced or otherwise encumbered by the borrower, or if the borrower is in default under the conditions of the mortgage prior to the expiration of its term. Amounts associated with these additional mortgages are not included in the accompanying financial statements.

Because mortgages receivable are secured by real estate, and ultimately through the process of foreclosure, management believes that procedures will result in collection. Accordingly, no allowance for uncollectible accounts has been provided.

G. ReStore Donated Inventories

The store's merchandise consists primarily of items that have been donated by building supply stores, construction companies, and individuals in the community. Because many of the donations are the result of overstocked items or are used items, the value of donations is not readily determinable until the merchandise is sold. Therefore, retail inventory from donated items of the store has not been recorded in these financial statements. Retail sales on these donated items are recorded at the point of sale.

H. Homes Under Construction and Held for Sale

Homes under construction include the direct and indirect costs of construction, land, and the donated value of materials and professional services used in the construction of homes. When the home is occupied and title transferred, the transfer value of the home is reported as income and the construction costs are expensed.

I. Land Held for Sale

Donated land not intended for building are recorded at fair market value at the time of donation as land held for sale. Any legal or holding costs associated with land held for sale are capitalized.

Hancock County Habitat for Humanity

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

J. Property and Equipment

Equipment purchased or contributed in excess of \$500 is capitalized. Equipment is recorded at cost, if purchased and fair market value, if contributed. Depreciation is computed on a straight-line basis over the following useful lives:

Equipment	5 to 7 years
Vehicles	5 to 7 years

K. Cash and Cash Equivalents

The Organization considers all short-term investments with an original maturity of three months or less to be cash equivalents.

L. Contributions

Unrestricted and unconditional contributions are recognized when received or pledged. Contributions are reported as temporarily restricted if they are received with donor stipulations that limit the use of such assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

M. Grants

The Organization receives funding from assistance programs that supplement its traditional funding sources.

N. In-Kind Support

The Organization records various types of in-kind support including discounts on services of professionals, building materials, and land donated by volunteers and local citizens in carrying out its mission. The amounts reported as in-kind support are reported at its fair value on the date of donation. Certain amounts may not meet the requirements necessary to be recognized under accounting principles generally accepted in the United States of America. Generally accepted accounting principles allow contributed services to be recognized only if the services received create or enhance nonfinancial assets or require specialized skills, provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation.

O. Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities. Certain costs have been allocated among the programs and supporting services benefited.

Hancock County Habitat for Humanity

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

2. CASH

At June 30, 2015 the Organization had no deposits in excess of the FDIC insurance limit of \$250,000. At June 30, 2015, the Organization's carrying amount of deposits was \$9,772.

3. MORTGAGES RECEIVABLE

Mortgage receivables as of June 30, 2015 are as follows:

Mortgages receivable at face value	\$ 613,342
Unamortized discounts on mortgages	(194,632)
	<u>\$ 418,710</u>

Future collections on these mortgages will be received over the next five years as follows:

Year Ending June 30,	
2016	\$ 52,018
2017	37,609
2018	37,609
2019	37,609
2020	37,609
Thereafter	<u>410,888</u>
Total	613,342
Unamortized discount	(194,632)
Current portion	<u>(52,018)</u>
Balance, net of current portion	<u>\$ 366,692</u>

4. PROPERTY AND EQUIPMENT

Property and equipment on June 30, 2015 consist of the following:

Office equipment	\$ 2,323
Construction equipment	3,700
ReStore equipment	<u>600</u>
	6,623
Less: accumulated depreciation	5,153
	<u>\$ 1,470</u>

Hancock County Habitat for Humanity

NOTES TO FINANCIAL STATEMENTS

June 30, 2015

5. LINE OF CREDIT

On June 11, 2014 the Organization entered into a line of credit agreement in the amount of \$40,000. Interest on outstanding balances is variable based on the Wall Street Journal Prime Rate plus 1.5%. The line is secured by business assets of the ReStore. At June 30, 2015 the balance outstanding was \$27,600.

6. RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets are available for the following purposes:

Building project in Blue Hill	\$	1,000
ReStore management training		634
Building project #19		3,624
Pulliam grant		196
	\$	<u>5,454</u>

7. TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

The Organization annually tithes a portion of its unrestricted contributions (excluding in-kind donations) to Habitat for Humanity International (Habitat International) which distributes the funds for use by Habitat affiliates in economically depressed areas around the world.

Beginning January 1, 2014 Habitat International is phasing in an annual U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI) fee based on the population of an affiliate's geographic service area. The fee is used to offset a portion of the costs associated with Habitat International's efforts that benefit all affiliates such as brand protection and promotion, regulatory advocacy and gifts in-kind solicitation.

Total contributions to Habitat International for the year ended June 30, 2015 was \$10,230. As of June 30, 2015 \$6,830 is included in accounts payable.

8. EVALUATION OF SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 03, 2016, the date which the financial statements were available to be issued.

Hancock County Habitat for Humanity

STATEMENT OF FUNCTIONAL EXPENSES

For the year ended June 30, 2015

	PROGRAM SERVICES		SUPPORTING SERVICES		Totals
	Housing	ReStore	Administration	Fundraising	
Construction costs	\$ 121,755	\$ -	\$ -	\$ -	\$ 121,755
Debt forgiveness	-	-	-	-	-
Wages	40,621	26,110	9,854	2,112	78,697
Payroll taxes	2,164	-	3,782	74	6,020
Employee benefits	12,064	-	458	-	12,522
Insurance	1,285	878	1,550	-	3,713
Postage	846	-	94	-	940
Telephone	1,363	-	5	-	1,368
Office expenses	2,252	1,011	851	-	4,114
Professional fees	10,053	55	6,002	-	16,110
Occupancy	2,193	28,600	-	-	30,793
Utilities	-	5,591	-	-	5,591
Repairs and maintenance	-	1,530	-	-	1,530
Equipment	-	3,146	-	-	3,146
Fundraising	-	-	-	8,538	8,538
Habitat International tithe and fees	5,214	5,016	-	-	10,230
Travel	245	-	-	-	245
Miscellaneous	1,293	4,962	-	-	6,255
Depreciation	981	-	-	-	981
Total expenses	<u>\$ 202,329</u>	<u>\$ 76,899</u>	<u>\$ 22,596</u>	<u>\$ 10,724</u>	<u>\$ 312,548</u>