Habitat for Humanity of Greater Dayton, Inc.

Financial Statements

June 30, 2019 and 2018

FLAGEL HUBER FLAGEL

Certified Public Accountants | Business Advisors

Habitat for Humanity of Greater Dayton, Inc.

Table of Contents

June 30, 2019 and 2018

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Certified Public Accountants | Business Advisors

Independent Auditor's Report

To the Board of Trustees of
Habitat for Humanity of Greater Dayton, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Greater Dayton, Inc. ("Habitat"), which comprise the statements of financial position as of June 30, 2019 and 2018, 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 audits 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 as of June 30, 2019 and 2018, and 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.

Flagel Huber Flagel

Certified Public Accountants
Dayton, Ohio
January 2, 2020

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Habitat for Humanity of Greater Dayton, Inc.

Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
Assets		
Current Assets		
Cash and cash equivalents	$ 591,613	$ 468,311
Cash and cash equivalents - escrow holdings on deposit	165,828	168,259
Investments	158,807	161,018
Pledges receivable, net of allowance	16,765	22,936
Grants receivable	138,817	27,500
Other receivables	8,888	2,419
Non-interest bearing mortgage loans receivable, net of discount, current portion	168,811	144,777
Prepaid expenses	9,403	6,056
Construction in progress	163,231	97,491
Notes receivable, current portion	7,719	9,137
Land held for development	560,137	616,070
Total Current Assets	1,990,019	1,723,974
Property and Equipment, net	703,188	710,780
Other Assets		
Non-interest bearing mortgage loans receivable, net of discount, long-term portion	2,984,472	3,130,699
Notes receivable, long-term portion	15,459	20,812
Total Other Assets	2,999,931	3,151,511
Total Assets	$ 5,693,138	$ 5,586,265

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Dayton, Inc.

Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
Liabilities and Net Assets		
Current Liabilities		
Line of credit	$ 59,900	$ 110,000
Accounts payable and accrued expenses	135,442	114,878
Accrued payroll and related liabilities	61,662	58,591
Escrow holding liability	165,828	168,259
Other agency liabilities	149,714	156,988
Note payable, current portion	0	7,924
Capital lease obligation, current portion	1,802	0
Total Current Liabilities	574,348	616,640
Long-Term Liabilities		
Note payable	0	30,285
Capital lease obligation	9,005	0
Total Long-Term Liabilities	9,005	30,285
Net Assets		
Without donor restrictions	5,016,715	4,869,690
Without donor restrictions - board designated	25,500	2,080
Total Net Assets Without Donor Restrictions	5,042,215	4,871,770
With donor restrictions	67,570	67,570
Total Net Assets	5,109,785	4,939,340
Total Liabilities and Net Assets	$ 5,693,138	$ 5,586,265

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Dayton, Inc.

Statement of Activities

For the Year Ended June 30, 2019

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	$ 987,317	$ 0	$ 987,317
In-kind contributions	289,099	0	289,099
Sales of houses and land	519,616	0	519,616
Mortgage loan discount amortization	276,971	0	276,971
ReStore sales	655,454	0	655,454
Special events	117,293	0	117,293
Other revenue and losses	(49,072)	0	(49,072)
Net investment return	2,997	0	2,997
Total Support and Revenue	2,799,675	0	2,799,675
Expenses:			
Program services	2,228,136	0	2,228,136
Supporting services:			
Fundraising	178,011	0	178,011
Management and general	223,083	0	223,083
Total Expenses	2,629,230	0	2,629,230
Change in Net Assets	170,445	0	170,445
Net Assets - beginning of year	4,871,770	67,570	4,939,340
Net Assets - end of year	$ 5,042,215	$ 67,570	$ 5,109,785

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Dayton, Inc.

Statement of Activities

For the Year Ended June 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue:			
Contributions	$ 798,647	$ 0	$ 798,647
In-kind contributions	285,748	0	285,748
Sales of houses and land	657,854	0	657,854
Mortgage loan discount amortization	229,113	0	229,113
ReStore sales	640,828	0	640,828
Special events	81,520	0	81,520
Other revenue and gains	22,411	0	22,411
Net investment return	11,635	0	11,635
Total Support and Revenue	2,727,756	0	2,727,756
Expenses:			
Program services	2,199,600	0	2,199,600
Supporting services:			
Fundraising	173,627	0	173,627
Management and general	221,538	0	221,538
Total Expenses	2,594,765	0	2,594,765
Change in Net Assets	132,991	0	132,991
Net Assets - beginning of year	4,738,779	67,570	4,806,349
Net Assets - end of year	$ 4,871,770	$ 67,570	$ 4,939,340

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Dayton, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2019

		Supporting Services		
	Program Services*	Fundraising	Management and General	Total
Salaries and benefits	$ 624,568	$ 119,041	$ 49,997	$ 793,606
Contract labor	51,120	0	94,936	146,056
Cost of homes sold	510,827	0	0	510,827
Building services and supplies	142,181	0	0	142,181
Mortgage discounts	298,583	0	0	298,583
Vehicles	1,692	0	0	1,692
Utilities	38,756	2,280	4,559	45,595
Publicity and promotion	36,088	32,479	3,609	72,176
Printing and postage	9,657	0	0	9,657
ReStore expenses	52,091	0	0	52,091
Professional fees	15,898	3,975	29,809	49,682
Insurance	18,404	1,255	1,255	20,914
Interest expense	0	0	5,945	5,945
Travel and entertainment	1,875	1,875	14,997	18,747
Office supplies, support, and services	110,454	13,149	7,890	131,493
Education	3,160	247	1,531	4,938
Property maintenance	54,185	2,356	2,356	58,897
Depreciation	31,141	1,354	1,354	33,849
Other	27,456	0	4,845	32,301
Tornado relief in-kind expenses	200,000	0	0	200,000
	$ 2,228,136	$ 178,011	$ 223,083	$ 2,629,230
Portion of above expenditures supported by in-kind contributions	$ 281,219	$ 0	$ 0	$ 281,219

* Program services include Family Services, Volunteer Services, Affordable Housing through Construction, and ReStore

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Dayton, Inc.

Statement of Functional Expenses

For the Year Ended June 30, 2018

		Supporting Services		
	Program Services*	Fundraising	Management and General	Total
Salaries and benefits	$ 622,481	$ 118,493	$ 48,976	$ 789,950
Contract labor	50,667	0	94,095	144,762
Cost of homes sold	693,104	0	0	693,104
Building services and supplies	113,087	0	0	113,087
Mortgage discounts	371,549	0	0	371,549
Vehicles	2,143	0	0	2,143
Utilities	39,831	2,343	4,686	46,860
Publicity and promotion	30,749	27,674	3,075	61,498
Printing and postage	5,632	2,816	939	9,387
ReStore expenses	40,730	0	0	40,730
Professional fees	16,652	4,163	31,223	52,038
Insurance	23,874	1,628	1,628	27,130
Interest expense	0	0	8,594	8,594
Travel and entertainment	1,620	1,620	12,958	16,198
Office supplies, support, and services	100,708	11,989	7,193	119,890
Education	3,160	247	1,530	4,937
Property maintenance	32,564	1,416	1,416	35,396
Depreciation	28,464	1,238	1,238	30,940
Other	22,585	0	3,987	26,572
	$ 2,199,600	$ 173,627	$ 221,538	$ 2,594,765
Portion of above expenditures supported by in-kind contributions	$ 103,652	$ 0	$ 0	$ 103,652

* Program services include Family Services, Volunteer Services, Affordable Housing through Construction, and ReStore

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Dayton, Inc.

Statements of Cash Flows

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Operating Activities:		
Change in net assets	$ 170,445	$ 132,991
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Sales of homes to homeowners	(193,417)	(283,451)
In-kind contributions of construction in progress	(7,880)	(182,096)
In-kind contributions of property and equipment	(1,800)	0
Depreciation	33,849	30,940
Mortgage loan receivable discount amortization	(276,971)	(229,113)
Gain on disposal of property, plant and equipment	(2,000)	0
Realized and unrealized (gain) loss on investments	(2,997)	1,179
Change in assets and liabilities:		
Pledges receivable, net of allowance	6,171	18,480
Grants receivable	(111,317)	0
Other receivables	(6,469)	2,896
Prepaid expenses	(3,347)	3,997
Construction in progress	(57,860)	212,429
Land held for development	190,885	204,043
Accounts payable and accrued expenses	20,564	(35,389)
Accrued payroll and related liabilities	3,071	(40,887)
Escrow holding liability	(2,431)	(12,551)
Other agency liabilities	(7,274)	10,858
Net Cash Used In Operating Activities	(248,778)	(165,674)
Cash Flows from Investing Activities:		
Mortgage payments and credits	457,629	373,910
Net proceeds from (purchase of) investments	5,208	(7,727)
Purchase of property, plant and equipment	(13,330)	(12,511)
Proceeds from sale of property, plant and equipment	2,000	0
Proceeds from notes receivable	6,771	6,768
Net Cash Provided By Investing Activities	$ 458,278	$ 360,440

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Dayton, Inc.

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2019 and 2018

	2019	2018
Cash Flows from Financing Activities:		
Net payments on line of credit	$ (50,100)	$ (10,000)
Repayments on note payable	(38,209)	(24,844)
Repayments on capital lease obligation	(320)	0
Net Cash Used In Financing Activities	(88,629)	(34,844)
Change in Cash and Cash Equivalents	120,871	159,922
Cash and Cash Equivalents:		
Beginning of year	636,570	476,648
End of year	$ 757,441	$ 636,570
Supplemental Disclosure of Cash Flow Information:		
Cash paid during the year for:		
Interest	$ 5,945	$ 8,594
Non-cash investing and financing activities:		
Issuance of non-interest bearing mortgage loans receivable	$ 492,000	$ 657,854
Discount on non-interest bearing mortgage loans receivable	$ 298,583	$ 371,549
Sales of houses to partner families subject to non-interest bearing mortgage loans	$ 193,417	$ 286,305
Net transfers from mortgage loans to land held for development	$ 134,952	$ 94,946
Purchase of property and equipment with capital lease obligation	$ 11,127	$ 0
In-kind contributions of inventory	$ 7,880	$ 182,096
In-kind contributions of property and equipment	$ 1,800	$ 0

The accompanying notes are an integral part of these statements.

1. Organization and Purpose

Habitat for Humanity of Greater Dayton, Inc. (“Habitat”) is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations. Habitat serves families in Montgomery and Greene Counties, Ohio and is supported primarily through donor contributions, sales of homes and its ReStore sales activity.

2. Summary of Significant Accounting Policies

The following is a summary of the significant accounting policies followed in the preparation of the financial statements.

Basis of Accounting
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations.

Financial Statement Presentation
Habitat reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. A description of each class as it pertains to Habitat is as follows:

Net Assets Without Donor Restrictions – Represents net assets available for use in general operations and not subject to donor restrictions. Included in net assets without donor restrictions are funds that have been designated by the Board of Trustees for home building activities in Greene County, Ohio and to start a new ReStore. See Note 14.

Net Assets With Donor Restrictions – Represents net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Cash and Cash Equivalents
Habitat considers cash and cash equivalents to be all highly liquid accounts that include interest and non-interest bearing demand deposit accounts. For purposes of the statements of cash flows the escrow holdings on deposit account is included in cash and cash equivalents.

Concentration of Credit Risk
Habitat maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Insurance coverage is $250,000 per depositor at each financial institution. Habitat has not experienced any losses in these accounts and believes it is not exposed to any significant credit risk on cash.

2. Summary of Significant Accounting Policies (Continued)

Escrow Activity and Agency Liabilities
Habitat services the mortgages on the homes it sells. Consequently, Habitat records an asset titled escrow holdings on deposit and a liability titled escrow holding liability, which are amounts received for insurance and property taxes on such homes. Habitat also services mortgages partially financed through a third-party lender. In servicing these homes, Habitat collects owner repayments on behalf of the third parties. Monies collected on behalf of these third parties are reflected as a liability titled other agency liabilities.

Investments
Investments are reported at fair value in the statements of financial position. Investment income, including interest, dividends, and realized and unrealized gains or losses, are recorded in the statements of activities as without donor restrictions or with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions.

Pledges Receivable
Pledges receivable represent unconditional pledges from donors to contribute cash or other assets to Habitat. Pledges receivable are recognized when the promise to give is made at the net present value of its estimated future cash flows. At June 30, 2019 and 2018 Habitat recorded a discount of $0 and $1,327, respectively. At June 30, 2019 and 2018 all pledge balances were estimated to be collected within one year. Management reviewed pledges receivable and determined an allowance for doubtful accounts of $350 and $13,950 was necessary as of June 30, 2019 and 2018, respectively. Bad debt expense recorded related to these receivables were $350 and $2,489 for the years ended June 30, 2019 and 2018, respectively.

Grants Receivable
Grants receivable represent foundation grants awarded to Habitat but still unpaid at year end. Habitat expects to collect the full amount of grants receivable in the next fiscal year.

Other Receivables
Habitat records other receivables that consist of insurance and property taxes paid by Habitat on behalf of homeowners with insufficient escrow balances. These balances totaled $15,057 and $13,539 at June 30, 2019 and 2018, respectively. Due to the suspect collectability of these balances, management has recorded an allowance for doubtful accounts of $15,057 and $13,539 at June 30, 2019 and 2018, respectively. Bad debt expense related to these receivables for the years ended June 30, 2019 and 2018 was $3,770 and $1,564, respectively.

Also included in other receivables are amounts collectible from various entities and individuals related to building expenses and special events. These amounts total to $8,888 and $2,419 at June 30, 2019 and 2018, respectively. Management has determined that no allowance for doubtful accounts is necessary and there have been no bad debt expenses recorded related to these receivables for the years ended June 30, 2019 and 2018.

2. Summary of Significant Accounting Policies (Continued)

Non-Interest-Bearing Mortgage Loans Receivable

Non-interest-bearing mortgage loans receivable consist of non-interest-bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. The mortgages have an original maturity of twenty (20) to thirty-five (35) years and arise in connection with Habitat's homebuilding initiatives. Habitat considers homeowners to be delinquent if they are 30 days past due on their mortgage payment. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or Habitat may accept back the deed in lieu of foreclosure where homeowner mortgage payments are deemed seriously delinquent. Properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure may be sold directly on the open market or refurbished in partnership with and sold to other families in need of decent, affordable housing. Consequently, no allowance for credit losses has been established for non-interest bearing mortgage loans receivable as of June 30, 2019 and 2018.

Management recorded bad debt expense related to non-interest bearing mortgage loans receivable of $0 for the years ended June 30, 2019 and 2018. In connection with the issuance of the original non-interest bearing mortgages, in most cases, Habitat also issues a silent second mortgage. These silent second mortgages represent the difference between the original mortgage and the appraised value of the home and are due to Habitat either in part or in full, if the homeowner does not comply with the terms of the original mortgage. These silent second mortgages deter the homeowner from selling the home upon closing for an immediate profit and are typically forgiven on a prorated basis over the first 100 scheduled payments of the original mortgage. At June 30, 2019 and 2018, Habitat has not recorded any receivables related to these silent second mortgages as management has determined that no triggering events have occurred that would require they be recognized in the financial statements.

Habitat's concentration of credit risk with respect to mortgage loans receivable depends on its partner families' ability to repay, which varies with economic conditions in the geographic area.

Construction in Progress

Construction in progress represents the construction costs, including donated building materials or services, of homes either under construction or completed but not yet transferred to homeowners. Construction in progress is valued at purchased cost, or if donated, at the fair market value as of the date of donation. Costs incurred in conjunction with home construction are capitalized until the sale of each home. Following is a summary of home building activity for the years ended June 30:

	2019		2018	
	Number	Costs	Number	Costs
Homes under construction, beginning of year	13	$ 97,491	11	$ 127,824
Additional costs in process		412,647		511,032
New homes started during the year	3	163,920	12	151,739
Homes transferred during the year	(5)	(510,827)	(10)	(693,104)
Homes under construction, end of year	11	$ 163,231	13	$ 97,491

Land Held for Development

Land held for development consisted of 37 and 34 properties at June 30, 2019 and 2018, respectively. Land held for development is valued at purchased cost, or if donated, at the fair market value at the date of donation.

2. Summary of Significant Accounting Policies (Continued)

Property and Equipment
Habitat capitalizes all expenditures for property and equipment in excess of $1,000 that have a useful life of at least three years. Property and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Donated equipment is recorded at fair market value at the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 39 years.

Impairment of Long-Lived Assets
Habitat reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended June 30, 2019 and 2018.

Contributions
Contributions received are recorded as support without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets with donor restrictions, depending on the nature of the restriction. When a donor restriction expires, (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. However, donor restricted contributions may be reported as support without donor restrictions if the restrictions are met in the same reporting period.

Donated Services
Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat if not donated. For the years ended June 30, 2019 and 2018, donated services recognized as contributions were $32,431and $42,169, respectively. These services are primarily related to construction of homes. Also, a substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in these financial statements since it does not meet the criteria above.

Donated Goods
Habitat receives donated goods for resale at the ReStore and records the donated goods at zero value rather than its fair market value as is the practice prevalent with other organizations engaged in similar activities.

During the years ended June 30, 2019 and 2018, Habitat received $7,880 and $182,096, respectively, of donated property that was capitalized as part of construction in progress. Habitat also received $248,788 and $61,483 for the years ended June 30, 2019 and 2018, respectively, in various donated goods, which are included in in-kind contributions on the statements of activities.

2. Summary of Significant Accounting Policies (Continued)

Sales of Houses and Land

Sales of houses and land to partner families are recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest-bearing mortgages have been discounted at various rates ranging from 6.0% to 9.0% based upon prevailing market rates for disadvantaged loans at the inception of the mortgages. Discounts are amortized using the straight-line method over the lives of the mortgages. Sales of houses and land to non-partner families are recorded at the gross sales amount.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended June 30, 2019 and 2018 totaled $72,176 and $61,498, respectively.

Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that effect 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 revenues and expenses during the reporting period. Actual results could differ from these estimates.

Income Taxes

Habitat has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International by the Internal Revenue Service. Accounting principles generally accepted in the United States of America prescribe attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. It requires affirmative evaluation that it is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements, and additional disclosures about uncertain tax positions are required.

Habitat's evaluation as of June 30, 2019 revealed no income tax positions that, if overturned, would have a material impact on the financial statements, including any position that would place Habitat's exempt status in jeopardy at June 30, 2019. The 2015 through 2017 tax years remain subject to examination by the Internal Revenue Service. Habitat does not believe that any reasonable changes will occur within the next twelve months that will have a material impact on the financial statements.

Reclassifications

Certain amounts reported in the prior year have been reclassified to conform to the current year presentation.

3. Liquidity and Availability

The following reflects Habitat's financial assets as of June 30, 2019, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year of the balance sheet date.

Financial assets at June 30, 2019	$	1,257,248
Less those unavailable for general expenditures within one year, due to:		
Agency liabilities		(315,542)
Contractual obligations		(61,702)
Donor-imposed restrictions		(67,570)
Board Designated for ReStore and Greene County		(25,500)
Financial assets available to meet cash needs for general expenditures within one year	$	786,934

Habitat's financial assets available to meet cash needs for general expenditures within one year at June 30, 2019 in relation to annual expenses is within industry standards. Habitat is substantially supported by contributions, which may contain donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Habitat must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year.

Management structures its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Habitat regularly reviews the need for funds to meet operating obligations and to ensure the availability of cash or collateral to fulfill its obligations. In the event of an unanticipated liquidity need, Habitat could also draw upon the available line of credit, as further discussed in Note 8.

4. Investments

The cost and fair value of Habitat's investments are summarized as follows:

	June 30, 2019		June 30, 2018	
	Cost	Fair Value	Cost	Fair Value
Money market funds	$ 4,764	$ 4,764	$ 6,441	$ 6,441
Common stocks	119,220	127,046	114,736	120,763
Fixed Income	17,883	19,057	24,477	25,763
Other Assets	7,158	7,940	7,327	8,051
	$ 149,025	$ 158,807	$ 152,981	$ 161,018

Components of investment return include the following for the years ended June 30:

	2019	2018
Unrealized gains (losses)	$ (1,745)	$ 6,337
Realized gains (losses)	4,742	(7,516)
Interest and dividend income	2,936	15,733
Investment fees	(2,936)	(2,919)
	$ 2,997	$ 11,635

All investments are held at the Dayton Foundation.

5. Notes Receivable

Habitat issued two notes during the year ended June 30, 2017, both related to the sale of homes to a non-partner related family. Both notes mature in the fiscal year ending June 30, 2022, bear interest at 7.50% per annum and are secured by a mortgage on the property sold. The value of these notes was $23,178 and $29,949 at June 30, 2019 and 2018, respectively.

Repayments of the notes receivable in each of the next three years succeeding June 30, 2019 are as follows:

2020	7,719
2021	8,318
2022	7,141
	$ 23,178

6. Mortgage Loans Receivable

The following table summarizes the age analysis of mortgage loans receivable at June 30:

	2019	2018
Current	$ 4,995,601	$ 5,074,619
30 – 60 days past due	262,926	405,970
61 – 90 days past due	131,463	135,323
Over 90 days past due	1,183,169	1,150,247
Less: discount	(3,419,876)	(3,490,683)
Total	$ 3,153,283	$ 3,275,476

Due to homeowner delinquency, Habitat completed foreclosure of five homes during the year ended June 30, 2019 and three homes during the year ended June 30, 2018.

7. Property and Equipment

Property and equipment consist of the following at June 30:

Cost:	2019	2018	Estimated Useful Life in Years
Land	$ 74,750	$ 74,750	-
Building and improvements	650,907	650,907	39
Tools	10,489	10,489	5 - 7
Office equipment	54,319	28,063	3 - 7
Vehicles	187,018	202,717	4 - 7
Total	977,483	966,926	
Less accumulated depreciation	(274,295)	(256,146)	
	$ 703,188	$ 710,780	

Depreciation expense was $33,849 and $30,940 for the years ended June 30, 2019 and 2018, respectively.

8. Line of Credit

Habitat has a revolving line of credit with a local bank with a maximum borrowing limit of $250,000 to provide for normal working capital requirements. The line of credit bears interest at prime (5.5% and 5.0% at June 30, 2019 and 2018, respectively) and is due in March 2020. The outstanding balance on the line of credit was $59,900 and $110,000 as of June 30, 2019 and 2018, respectively.

9. Operating Leases

Habitat leases certain office equipment under a long-term lease agreement. The lease expires in 2021. Rent expense under operating lease agreements for the years ended June 30, 2019 and 2018 was $2,988 each year.

Minimum future lease payments as of June 30, 2019 for each of the following two fiscal years and in the aggregate are as follows:

2020		2,988
2021		2,490
	$	5,478

10. Capital Lease Obligation

In February 2019, Habitat entered into a capital lease obligation for a telephone system, requiring monthly payments of $240, including interest at 10.6%. The final payment is due February 2024.

Amortization of leased assets is included with depreciation expense and amounted to $371 and $0 for the years ended June 30, 2019 and 2018, respectively. The following is an analysis of capital leased property included in property and equipment at June 30, 2019:

Capitalized cost of office equipment	$	11,127
Less: accumulated depreciation		(371)
	$	10,756

Future minimum lease payments for capital leases are as follows:

Year		Amount
2020	$	2,879
2021		2,879
2022		2,879
2023		2,879
2024		1,919
		13,435
Less amount representing interest		(2,628)
	$	10,807

11. Retirement Plan

Habitat sponsors a defined contribution retirement plan ("the Plan") covering all employees who have completed minimum age and service requirements. Habitat makes a contribution to the Plan up to 3% of the participant's compensation. Total expense for the years ended June 30, 2019 and 2018 was $9,229 and $7,717, respectively.

12. Transactions with Related Parties

Habitat annually remits a portion of its unrestricted contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2019 and 2018, Habitat contributed $38,500 and $35,089, respectively, to Habitat International. Such amounts are included in program services expense in the statements of activities.

A member of Habitat's Board of Directors is a partner in a law firm that provides legal services to Habitat. For the year ended June 30, 2019, legal services provided by this firm and charged to expense totaled $18,284, of which $2,725 was included in in-kind contributions. For the year ended June 30, 2018, legal services provided by this firm and charged to expense totaled $17,265, of which $0 was included in in-kind contributions. The total amount included in accounts payable at June 30, 2019 and 2018 totaled $0 and $5,061, respectively.

13. Note Payable

Habitat previously had a mortgage note payable with PNC Bank requiring monthly payments of $660 and bearing interest at prime rate. The original value of the note was $39,619, with a maturity of April 30, 2023. During 2019, Habitat paid the mortgage note in full. The note payable had a balance of $38,209 at June 30, 2018.

14. Net Assets

As more fully described in Note 17, net assets with donor restrictions consist of endowment fund investments created to further the mission of Habitat.

Habitat's governing board has designated the following amounts of cash from net assets as of June 30:

	2019	2018
Greene County operations	$ 500	$ 2,080
Opening a new ReStore	25,000	0
	$ 25,500	$ 2,080

15. Functional Expenses

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include salaries and benefits, utilities, publicity and promotion, insurance, and depreciation which are allocated on the basis of estimates of personnel time and facility square footage.

16. Contingencies

Financial awards from federal, state, and local governmental entities in the form of grants are subject to compliance audits. Such audits could result in claims against Habitat for disallowed costs or noncompliance with grantor restrictions. Management believes that they are in compliance with the terms related to the funds they have received and therefore, no provision has been made for any liabilities that may arise from such audits.

17. Endowment Funds

Net assets with donor restrictions that are perpetual in nature consist of endowment fund investments created to further the mission of Habitat. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Habitat has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Habitat classifies as net assets with donor restrictions (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified as perpetual in nature is classified as temporarily in nature until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by SPMIFA. Habitat considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Habitat, and (7) Habitat's investment policies.

Habitat has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. Habitat's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. Habitat relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Habitat targets a diversified asset allocation that places an emphasis on equity investments to achieve its long-term return objectives with prudent risk parameters.

To date, Habitat has appropriated all the earnings from the endowment to support operations.

Endowment net assets held in perpetuity as of June 30, 2019 and 2018 were $67,570.

Changes in endowment net assets for the years ended June 30 were as follows:

	2019	2018
Beginning of year	$ 67,570	$ 67,570
Net appreciation	941	4,853
Amounts appropriated for expenditure	(941)	(4,853)
End of year	$ 67,570	$ 67,570

18. Fair Value Measurements

Habitat applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy has been established that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Observable inputs such as quoted prices in active markets;
- Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The carrying value of Habitat's short-term financial instruments, including cash and cash equivalents, pledges receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization.

A description of the valuation methodologies used for assets measured at fair value, as well as the general description of such instruments pursuant to the valuation hierarchy, is set forth below. There have been no changes in the methodologies used at June 30, 2019 and 2018.

The fair values of investments are categorized as level one and are a combination of money market funds, common stocks, and mutual funds. The fair values are determined by quoted prices in active exchange markets, such as the New York Stock Exchange. See Note 4.

The discounted non-interest-bearing mortgage loans receivable is categorized as level two. The discount rate used to calculate the discount for all mortgages closed during a fiscal year is published annually by Habitat for Humanity International. It is based on an average of the low-income housing credit annual discount rate, Revenue Ruling 2009-16 section 42(b)(1), for buildings placed in service during the period.

18. Fair Value Measurements (Continued)

Fair values of assets and liabilities measured on a recurring basis at June 30, 2019 are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	$ 4,764	$ 0	$ 0	$ 4,764
Common stocks	127,046	0	0	127,046
Fixed income	19,057	0	0	19,057
Other assets	7,940	0	0	7,940
Total investments	$ 158,807	$ 0	$ 0	$ 158,807
Receivables:				
Mortgage loans	$ 0	$ 6,573,159	$ 0	$ 6,573,159
Less: discounts	0	(3,419,876)	0	(3,419,876)
Net receivables	$ 0	$ 3,153,283	$ 0	$ 3,153,283

Fair values of assets and liabilities measured on a recurring basis at June 30, 2018 are as follows:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market funds	$ 6,441	$ 0	$ 0	$ 6,441
Common stocks	120,763	0	0	120,763
Fixed income	25,763	0	0	25,763
Other assets	8,051	0	0	8,051
Total investments	$ 161,018	$ 0	$ 0	$ 161,018
Receivables:				
Mortgage loans	$ 0	$ 6,766,159	$ 0	$ 6,766,159
Less: discounts	0	(3,490,683)	0	(3,490,683)
Net receivables	$ 0	$ 3,275,476	$ 0	$ 3,275,476

19. Change in Accounting Policy

Habitat reclassified its opening net asset balances as of July 1, 2017 to properly comply with a new accounting standard related to net asset classifications. The adoption of the new standard changes the presentation of net assets and has no net effect on the financial results of Habitat. Under the new policy Habitat’s former three net asset classifications (permanently restricted, temporarily restricted, and unrestricted) were replaced with two net asset classes: net assets with donor restrictions and net assets without donor restrictions.

20. Subsequent Events

Management evaluated the activity of Habitat through January 2, 2020 (the date the financial statements were available to be issued) and concluded that, other than the matter discussed below, no subsequent events have occurred that require recognition in the financial statements or disclosure in the notes to the financial statements.

Subsequent to year-end, Habitat's Board of Trustees approved the expansion of operations into Clark County, Ohio.

In this ever-changing business environment, Flagel Huber Flagel goes beyond numbers and deadlines, returning the trust and confidence our clients place in us, with a caring partner relationship. We are committed to a collaborative search for ideas and solutions that help business organizations thrive and families build and preserve wealth. Our commitment is simple; financial and operational *insight*, service *integrity*, and problem solving *innovation*.

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