

**GREATER FOX CITIES AREA
HABITAT FOR HUMANITY, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2017

CONTENTS

	<u>Page</u>
INDEPENDENT AUDITORS' REPORT	1 - 2
FINANCIAL STATEMENTS	
Statement of Financial Position	3 - 4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7 - 8
Notes to Financial Statements	9 - 24

INDEPENDENT AUDITORS' REPORT

Board of Directors
Greater Fox Cities Area Habitat for Humanity, Inc.
Menasha, Wisconsin

We have audited the accompanying financial statements of Greater Fox Cities Area Habitat for Humanity, Inc. (the Organization) (a not-for-profit corporation), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities, functional expenses, 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 the financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' 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 auditors' 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 auditors consider internal control relevant to the Organization's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Greater Fox Cities Area Habitat for Humanity, 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.

Change in Accounting Principle

As discussed in Note 1U to the financial statements, the Greater Fox Cities Area Habitat for Humanity, Inc. adopted new accounting guidance for the statement of cash flows presentation of restricted cash during the year ended June 30, 2017. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Greater Fox Cities Area Habitat for Humanity, Inc.'s financial statements as of and for the year ended June 30, 2016, and our report dated October 26, 2016, expressed an unmodified opinion on those audited financial statements. 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.



Certified Public Accountants

Appleton, Wisconsin
October 27, 2017

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2017

With Summarized Financial Information as of June 30, 2016

ASSETS	<u>2017</u>	<u>2016</u>
<u>Current assets</u>		
Cash and cash equivalents	\$ 1,706,195	\$ 2,413,040
Certificates of deposit	302,966	302,339
Other receivables	4,153	10,494
Contributions and grants receivable, current portion:		
HFHI grants receivable	134,561	145,640
Other	222,618	40,050
Mortgage loans receivable, current portion	324,000	342,000
Prepaid expenses	34,248	16,916
Inventories:		
Materials	230,401	194,637
Home construction, rehabilitation, and repairs in process	960,413	1,091,808
Property held for sale or future home development	<u>1,284,012</u>	<u>1,214,230</u>
Total current assets	<u>5,203,567</u>	<u>5,771,154</u>
Property and equipment, net	<u>1,183,089</u>	<u>1,166,587</u>
<u>Other assets</u>		
Contributions and grants receivable, less current portion	185,969	-
Restricted cash	59,741	71,689
Investment in joint venture	1,134,115	1,134,115
Investment in partnership	48,950	48,950
Beneficial interest in assets held by Community Foundation	2,287,638	1,253,741
Mortgage loans receivable, less current portion	1,850,012	1,946,167
Rental properties, net	<u>300,584</u>	<u>174,917</u>
Total other assets	<u>5,867,009</u>	<u>4,629,579</u>
Total assets	<u>\$12,253,665</u>	<u>\$11,567,320</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	<u>2017</u>	<u>2016</u>
<u>Current liabilities</u>		
Notes payable, current maturities	\$ 169,414	\$ 193,387
Accounts payable	112,101	126,167
Accrued payroll	34,003	84,490
Mortgage escrows	304,231	289,998
Funds held for others	27,557	27,732
Other current liabilities	<u>44,947</u>	<u>39,651</u>
Total current liabilities	692,253	761,425
Notes payable, less current maturities	<u>3,160,410</u>	<u>3,238,398</u>
Total liabilities	<u>3,852,663</u>	<u>3,999,823</u>
<u>Net assets</u>		
Unrestricted	6,848,190	6,224,946
Temporarily restricted	<u>1,552,812</u>	<u>1,342,551</u>
Total net assets	<u>8,401,002</u>	<u>7,567,497</u>
Total liabilities and net assets	<u>\$12,253,665</u>	<u>\$11,567,320</u>

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2017

With Summarized Financial Information for the Year Ended June 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2017</u>	<u>2016</u>
<u>Support and other revenue</u>				
Contributions	\$ 942,210	\$ 882,533	\$ 1,824,743	\$ 2,151,708
Grants	216,087	264,412	480,499	580,393
In-kind contributions	227,392	-	227,392	322,257
Special events	-	-	-	104,469
Sales to homebuyers	1,981,877	-	1,981,877	1,418,267
Owner-occupied home repair services	96,642	-	96,642	44,858
Mortgage loans discount amortization	167,037	-	167,037	152,158
ReStore income	1,050,575	-	1,050,575	928,659
Return on beneficial interest on assets held by Community Foundation	104,723	-	104,723	(2,477)
Investment and interest income	26,098	-	26,098	22,816
Gain on sale of mortgage loans receivable	469,503	-	469,503	491,002
Gain on second mortgages and other sales	78,428	-	78,428	164,909
Rent income	37,681	-	37,681	18,427
Other income	12,128	-	12,128	8,782
Net assets released from restrictions	<u>936,684</u>	<u>(936,684)</u>	<u>-</u>	<u>-</u>
Total support and other revenue	<u>6,347,065</u>	<u>210,261</u>	<u>6,557,326</u>	<u>6,406,228</u>
<u>Expenses</u>				
Program services - Housing	4,367,320	-	4,367,320	3,379,545
Program services - ReStore	773,716	-	773,716	746,012
Management and general	329,802	-	329,802	245,868
Fundraising	<u>252,983</u>	<u>-</u>	<u>252,983</u>	<u>271,119</u>
Total expenses	<u>5,723,821</u>	<u>-</u>	<u>5,723,821</u>	<u>4,642,544</u>
Change in net assets	623,244	210,261	833,505	1,763,684
<u>Net assets</u>				
Beginning of year	<u>6,224,946</u>	<u>1,342,551</u>	<u>7,567,497</u>	<u>5,803,813</u>
End of year	<u>\$ 6,848,190</u>	<u>\$ 1,552,812</u>	<u>\$ 8,401,002</u>	<u>\$ 7,567,497</u>

See notes to financial statements.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2017

With Summarized Financial Information for the Year Ended June 30, 2016

	Program	Program	Management	Fund-	Totals	
	Services - <u>Housing</u>	Services - <u>ReStore</u>	and <u>General</u>		raising	<u>2017</u>
Salaries and wages	\$ 521,762	\$ 303,229	\$ 186,749	\$ 134,782	\$ 1,146,522	\$ 980,126
Employee benefits and payroll taxes	119,746	109,894	48,237	32,126	310,003	257,565
Cost of sales to homebuyers	2,186,695	-	-	-	2,186,695	1,644,312
Cost of owner-occupied home repair services	166,121	-	-	-	166,121	107,078
Mortgage loans discount	859,027	-	-	-	859,027	626,989
Cost of purchased goods sold	-	56,511	-	-	56,511	79,862
Professional fees	26,095	6,383	53,806	6,287	92,571	65,242
Office and technology	36,056	19,975	6,718	7,895	70,644	75,561
Occupancy	29,147	160,008	7,263	2,436	198,854	186,003
Insurance	25,563	9,890	930	-	36,383	28,444
Property tax	12,528	23,285	-	-	35,813	44,741
Equipment costs	32,519	13,362	27	30	45,938	35,354
Printing	10,287	4,978	2,161	12,992	30,418	35,727
Advertising	6,286	198	4,926	23,652	35,062	32,824
Special events:						
Meals and entertainment	-	-	-	-	-	32,892
Professional services	-	-	-	-	-	9,148
Fuel and travel	37,146	14,769	5,454	3,520	60,889	58,078
Conference and convention	9,599	3,902	3,301	6,734	23,536	12,656
Tithe and fees to HFHI	92,130	-	-	-	92,130	99,826
Interest	69,612	-	2,599	-	72,211	47,302
Depreciation	57,813	8,752	3,033	2,957	72,555	48,517
Other	<u>69,188</u>	<u>38,580</u>	<u>4,598</u>	<u>19,572</u>	<u>131,938</u>	<u>134,297</u>
Total functional expenses	<u>\$4,367,320</u>	<u>\$773,716</u>	<u>\$ 329,802</u>	<u>\$252,983</u>	<u>\$5,723,821</u>	<u>\$4,642,544</u>

See notes to financial statements.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2017

With Summarized Financial Information for the Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
<u>Operating activities</u>		
Change in net assets	\$ 833,505	\$ 1,763,684
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Depreciation	72,555	48,517
Return on beneficial interest in assets held by Community Foundation	(104,723)	2,477
Discount on mortgage loans receivable	859,027	626,989
Amortization of mortgage loans discount	(167,037)	(152,158)
Discount on notes payable	(4,908)	(4,054)
Amortization of notes payable discount and debt issuance costs	18,040	19,519
Non-cash sales to homebuyers	(1,789,470)	(1,279,264)
Non-cash owner-occupied home repairs services	(44,626)	(12,471)
Non-cash contribution of property and equipment	-	(60,357)
Non-cash contribution of property held for sale or future home development	(30,800)	(45,000)
Non-cash contribution of rental properties	(26,844)	-
Gain on sale of mortgage loans receivable	(469,503)	(491,002)
Gain on second mortgages and other sales	(83,298)	(95,740)
Decrease (increase) in:		
Other receivables	6,341	3,527
Contributions and grants receivable	(357,458)	(78,317)
Prepaid expenses	(17,332)	14,214
Inventories	56,649	(319,061)
Increase (decrease) in:		
Accounts payable	(14,066)	29,283
Accrued payroll	(50,487)	20,113
Mortgage escrows	14,233	20,683
Funds held for others	(175)	27,732
Other current liabilities	<u>5,296</u>	<u>5,184</u>
Net cash provided by (used for) operating activities	<u>(1,295,081)</u>	<u>44,498</u>

See notes to financial statements.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF CASH FLOWS, CONTINUED

Year Ended June 30, 2017

With Summarized Financial Information for the Year Ended June 30, 2016

	<u>2017</u>	<u>2016</u>
<u>Investing activities</u>		
Purchases of certificates of deposit	\$ (153,257)	\$ (202,903)
Proceeds from maturities of certificates of deposit	152,630	202,470
Purchase of property and equipment	(83,088)	(761,424)
Proceeds from sale of property and equipment	1,300	-
Purchase of investment in joint venture	-	(1,134,115)
Purchase of beneficial interest in assets held by Community Foundation	(980,305)	(344,664)
Distribution from beneficial interest in assets held by Community Foundation	51,131	-
Proceeds from sale of mortgage loans receivable	1,266,775	1,241,471
Collections received on mortgage loans receivable	458,989	381,801
Collections on second mortgages	81,998	95,740
Purchase of rental properties	<u>(104,792)</u>	<u>(174,917)</u>
Net cash provided by (used for) investing activities	<u>691,381</u>	<u>(696,541)</u>
<u>Financing activities</u>		
Proceeds from notes payable	52,622	2,853,348
Payments on notes payable	(167,715)	(113,738)
Payments for debt issuance costs	<u>-</u>	<u>(100,231)</u>
Net cash provided by (used for) financing activities	<u>(115,093)</u>	<u>2,639,379</u>
<u>Cash, cash equivalents, and restricted cash</u>		
Net increase (decrease)	(718,793)	1,987,336
Beginning of year	<u>2,484,729</u>	<u>497,393</u>
End of year	<u>\$ 1,765,936</u>	<u>\$ 2,484,729</u>
<u>Supplemental cash flow information</u>		
Cash paid for interest	\$ 54,171	\$ 27,783
<u>Non-cash investing and financing activities</u>		
Sales to homebuyers for which mortgage loans receivable were obtained	\$ 1,789,470	\$ 1,279,264
Owner-occupied home repairs services for which mortgage loans receivable were obtained	\$ 44,626	\$ 12,471
Contribution of property and equipment	\$ -	\$ 60,357
Contribution of rental properties	\$ 26,844	\$ -

See notes to financial statements.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

Note 1 - Nature of activities and significant accounting policies

A. Nature of activities

Greater Fox Cities Area Habitat for Humanity, Inc. (Organization) is a charitable organization located in Menasha, Wisconsin that is an affiliate of Habitat for Humanity International, Inc. (HFHI). The Organization is a non-denominational Christian not-for-profit organization whose purpose is to create safe, decent and affordable housing in partnership with those in need. This is achieved through a wide range of affordable housing solutions.

Although HFHI assists with information resources, the Organization is primarily and directly responsible for its own operations. Such operations are conducted within the Fox Cities area and include the Almost Home, Homebuyer, Home Repair, and Neighborhood Revitalization programs including Rock the Block® events and the Habitat ReStore retail outlet.

The Organization serves potential homeowners through its Almost Home and Homebuyer programs. Almost Home addresses the needs of prospective homeowners whose Habitat applications have been denied because of a lack of sufficient income or financial stability and assists existing Habitat homeowners who have experienced financial setbacks, health situation or job loss and are struggling to make their monthly mortgage payments. Through the Homebuyer program, the Organization constructs new or rehabilitates existing homes and sells those homes to low-income families who pay for the homes through no-interest mortgages.

The Organization serves existing homeowners through the Home Repair program and Rock the Block® events. The Home Repair program provides critical home repairs, weatherization and exterior preservation work in partnership with low-income homeowners, who pay for the repairs through no-interest loans. At Rock the Block® events, residents, municipalities and community partners collaborate with the Organization in targeted neighborhoods during a concentrated period of time to complete home repair and preservation projects for low-income homeowners, and community projects to improve and beautify the neighborhood surrounding the homes.

The Organization also operates the Habitat ReStore, a resale store open to the public located in Appleton, Wisconsin. Since opening, the Habitat ReStore has been able to divert millions of pounds of potential waste from local landfills, while passing along those savings to customers. Most of the items sold at the Habitat ReStore are donated and the majority of the work at Habitat ReStore is performed by dedicated volunteers. Profits from the Habitat ReStore are used to fund the mission work of the Organization.

The Organization is supported primarily through contributions, grants, income from its resale store, homeowner mortgage payments and home repair loan payments.

B. Basis of accounting

The financial statements of the Organization have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 1 - Nature of activities and significant accounting policies, continued

C. Basis of presentation

The Organization is required to report information regarding its financial position and its activities in the following three classes of net assets:

Unrestricted net assets - net assets that are neither temporarily nor permanently restricted by donor-imposed stipulations.

Temporarily restricted net assets - net assets that result from contributions whose use by the Organization is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of the Organization pursuant to those stipulations.

Permanently restricted net assets - net assets resulting from contributions whose use by the Organization is limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled and removed by actions of the Organization.

The Organization had no permanently restricted net assets at June 30, 2017.

D. Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could differ from those estimates.

E. Cash equivalents

The Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

F. Contributions and grants receivable

Unconditional promises to give are recognized as revenue and as assets in the period the promise is received. Conditional promises to give are recognized only when the conditions on which they depend are substantially met.

G. Inventories

Materials

Materials inventory includes construction materials and ReStore inventory. Construction materials consists of home building materials used in construction of the Organization's homes, substantially all of which are donated, and are recorded at fair value at the time of donation. At the end of its fiscal year, the Organization estimates the value of construction materials determined by the first-in, first-out method. ReStore inventory includes items purchased by and donated to ReStore. At the end of its fiscal year, the Organization estimates the value of ReStore goods on hand based on the estimated retail value. Inventory purchased by ReStore is stated at the lower of cost, determined by the first-in, first-out method, or market.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 1 - Nature of activities and significant accounting policies, continued

G. Inventories, continued

Home construction, rehabilitation, and repairs in process

Costs incurred in conjunction with home construction and home rehabilitation are recorded as assets until the sale of the home. Costs incurred in conjunction with home repair services are recorded as assets until the project is complete.

Property held for sale or future home development

Property held for sale or future home development consists of purchased or donated land that will be developed for future home construction, properties acquired for rehabilitation to be sold to new homeowners, and homes that have been re-acquired from previous homeowners that will be sold on the open market. Properties are valued at the lower of cost or market.

H. Property and equipment and depreciation

All acquisitions and improvements of property and equipment in excess of \$1,000 are capitalized while all expenditures for repairs and maintenance that do not materially prolong the useful lives of assets are expensed. Purchased property and equipment is carried at cost. Donated property and equipment is carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated lives of the assets.

I. Restricted cash

The breakdown of total cash, cash equivalents, and restricted cash reported within the statement of financial position that sum to the total of the same such amount shown in the statement of cash flows at June 30, 2017 consists of the following:

Cash and cash equivalents	\$ 1,706,195
Restricted cash	<u>59,741</u>
Total cash, cash equivalents, and restricted cash shown in the statement of cash flows	<u>\$ 1,765,936</u>

Restricted cash consists of cash restricted for future professional fees related to the investment in joint venture.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED

June 30, 2017

Note 1 - Nature of activities and significant accounting policies, continued

J. Investment in joint venture

The Organization, along with eleven other Habitat affiliates, invested in a joint venture (HFHI NMTC Leverage Lender 2013-1, LLC) to take advantage of New Markets Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. For a 7.35% ownership share of the joint venture, the Organization invested \$1,134,115, which was financed with a loan payable to a community development entity (HFHI NMTC Sub-CDE I, LLC, an affiliate of the joint venture) (see Note 11). The Organization carries its investment in joint venture at the lower of cost or market value.

K. Investment in partnership

The Organization's investment in partnership consists of a minor interest in a limited partnership. The Organization carries its investment in the limited partnership at the lower of the fair value as of the date the investment was donated to the Organization (cost) or market value. The Organization's risk of loss is limited to the carrying amount of the investment. There is not a public market for this investment. Because the investment in the limited partnership is not readily marketable, its estimated value is subject to uncertainty and, therefore may differ from the value that would have been used had a ready market for such investment been available.

L. Mortgage loans receivable

Mortgage loans receivable consists of loans secured by real estate located in the Fox Cities area of Wisconsin. The loan terms typically include maturities of 12-360 months and are non-interest bearing. Since the mortgage loans are non-interest bearing, they are discounted using a rate determined annually by HFHI, which is based on a national rate for a home purchaser with a credit risk similar to the homeowners qualified to purchase a home from the Organization. Once the rate is determined, it is not revised for any market changes.

For the Homebuyer program, the Organization sells homes at the appraised value determined by an independent third party appraisal company. At the time of the home sale, the Organization obtains a first mortgage for each home. The length of the loan is determined by the income of the family with a range of 240-360 months. Monthly mortgage payment amounts (including escrow for taxes and insurance) are set based on 23% of the family's gross monthly income. Based on that calculation, if a family is not able to pay off the full loan amount in less than 30 years, then the Organization issues a 0% interest deferred second mortgage that represents the difference between the appraised value and the amount the family can afford to pay over 30 years. The second mortgage would become due if the homeowner sells, refinances, defaults, or the home is no longer their primary residence before a stipulated time period. The second mortgage is forgivable pro-rata over a 240 month period. If the second mortgage becomes due, it is collected after the first mortgage is satisfied, and after certain other liens are satisfied. Because the use of the second mortgage is unlikely and unknown, the Organization has not recorded a receivable for these second mortgages in the financial statements. The undiscounted value of the second mortgages not recorded in the financial statements totaled approximately \$4,450,000 at June 30, 2017. If a second mortgage becomes due, the Organization includes the proceeds in gain on second mortgages and other sales on the statement of activities at the time it is collected.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 1 - Nature of activities and significant accounting policies, continued

L. Mortgage loans receivable, continued

The mortgage loans for the Home Repair program are based on the Organization's costs to provide the labor, overhead, and materials to complete the home repair. No profit is charged on these projects. The loan terms range from 12-84 months based on the debt-to-income ratio for each family.

At times, the Organization will enter into agreements for the sale of mortgage loans receivable. During the year ended June 30, 2017, the Organization entered into a loan sale and servicing agreement for certain mortgage loans receivable with one financial institution. Under the agreement the Organization sold mortgage loans with recourse totaling \$1,495,867 at the face value of the loans less a 2% discount totaling \$229,092. The net proceeds from the sale totaling \$1,266,775 were used to fund board designated unrestricted net assets. At the time of the sale, the mortgage loans had unamortized discounts totaling \$698,595. The unamortized discounts netted with the 2% discount resulted in a net gain on the sale of mortgage loans receivable of \$469,503. The Organization continues to service previously sold mortgage loans receivable by collecting payments from homeowners on behalf of and remitting these payments to the purchasing financial institutions. Mortgage loans receivable serviced for others are not included in the accompanying statement of financial position. The unpaid principal balance of mortgage loans receivable serviced for others was approximately \$5,132,000 at June 30, 2017. The loan sale and servicing agreements contain clauses whereas for any sold mortgage loans receivable that become 90 days past due, the Organization must find a substitute mortgage loan receivable or repurchase the non-performing loan.

During the year ended June 30, 2017, the Organization was not required to substitute or repurchase any previously sold mortgage loans receivable. The Organization considers all of the mortgage loans receivable serviced at June 30, 2017 to be fully collectible; accordingly, no provision has been made for future losses that may result under the recourse arrangements.

At June 30, 2017, the Organization had approximately \$61,000 of mortgage loans receivable secured by a residential real estate property for which the Organization has begun formal foreclosure proceedings. At June 30, 2017, the Organization had taken possession of approximately \$67,000 of foreclosed residential real estate properties.

M. Funds held for others

Funds held for others represent grant receipts received on behalf of other charitable organizations. These funds are included in the Organization's cash accounts. These funds typically support activities that are not programs of the Organization, and are not under the control of the Organization. As such, the Organization has recorded a liability related to these funds and does not include the activity of these funds in its statement of activities.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 1 - Nature of activities and significant accounting policies, continued

N. Contribution recognition

Unconditional contributions are recognized as revenue when they are promised or received, as applicable, and are available for unrestricted use unless specifically restricted by the donor. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. 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.

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 the Organization. The value of donated services capitalized in property and equipment and included in in-kind contributions totaled \$26,844 during the year ended June 30, 2017. Many other volunteers provided services to the Organization throughout the year that have not been recognized as contributions in the financial statements because the recognition criteria were not met. The Organization estimates 86,760 volunteer hours were contributed during the year ended June 30, 2017 that did not meet the recognition criteria.

O. Other revenue recognition

The Organization recognizes income from sales to homebuyers when title and risk transfer to the homebuyer. The Organization recognizes income from home repair services when the service is completed.

P. Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The costs of advertising are expensed as incurred. During the year ended June 30, 2017, advertising costs totaled \$35,062.

Q. Functional allocation of expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting activities benefited.

R. Presentation of sales tax

The Organization collects sales tax from certain customers and remits the entire amount to the appropriate governmental entities. The Organization's accounting policy is to exclude the tax collected and remitted from revenues and expenses.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 1 - Nature of activities and significant accounting policies, continued

S. Income tax status

The Organization has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat for Humanity International, Inc. by the Internal Revenue Service. However, income from certain activities not directly related to the Organization's tax-exempt purpose is subject to taxation as unrelated business income. The Organization is also exempt from Wisconsin income taxes.

T. Summarized financial information

The financial statements include certain prior-year summarized information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2016, from which the summarized information was derived.

U. Change in accounting principle

During the year ended June 30, 2017, the Organization elected to early adopt ASU 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. The update requires that the statement of cash flows explain the change during the year in the total cash and restricted cash. Therefore, amounts described as restricted cash are now included with cash when reconciling the beginning-of-year and end-of-year totals shown on the statement of cash flows. This change was retrospectively applied and the statement of cash flows for the year ended June 30, 2016 was restated to exclude \$83,637 of additions to restricted cash for future professional fees and \$11,948 of related uses. In addition, \$444,594 of additions to restricted cash for purchase of qualified properties and \$444,594 of related uses were excluded.

V. Subsequent events

The Organization has evaluated events and transactions for potential recognition of disclosure in the financial statements through October 27, 2017, the date on which the financial statements were available to be issued.

W. Reclassifications

Certain amounts in the prior-year summarized information have been reclassified for comparative purposes to conform with the presentation in the current-year financial statements with no change in previously reported net assets or changes in net assets.

Note 2 - Concentration of credit risk

The Organization maintains its cash balances at several banks and credit unions in the Fox Cities area. Aggregate deposits are insured by the Federal Deposit Insurance Corporation (FDIC) and National Credit Union Share Insurance Fund up to \$250,000 per insured depository institution. The Organization's cash deposits may exceed these insured limits at times during the year. The Organization has not experienced any losses on these accounts. Management believes the Organization is not exposed to any significant credit risk on cash.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 3 - Certificates of deposit

The Organization holds certificates of deposit totaling \$302,966 at June 30, 2017. The certificates bear interest rates ranging from 0.85% - 1.40% and have maturities of fourteen to nineteen months, with penalties for early withdrawal. Any penalties for early withdrawal would not have a material effect on the financial statements.

Note 4 - Contributions and grants receivable

Unconditional contributions and grants receivable at June 30, 2017 consist of the following:

Receivable in less than one year	\$ 357,179
Receivable in one to five years	<u>194,166</u>
Total contributions and grants receivable	551,345
Less discount at rate of 3%	<u>(8,197)</u>
Present value of contributions and grants receivable	<u>\$543,148</u>

The Organization considers all of the contributions and grants receivable at June 30, 2017 to be fully collectible; accordingly, no allowance for uncollectible contributions has been established.

At June 30, 2017, the Organization also had conditional promises to give of approximately \$354,000. The promises to give contain conditions such as providing occupancy to the homebuyer by a specific date, and successful review, evaluation, and approval of progress by the donor, and will be included in the financial statements in future years when the conditions are met.

Note 5 - Inventories

Inventories at June 30, 2017 consist of the following:

Materials:	
ReStore inventory	\$ 92,515
Construction materials	<u>137,886</u>
Total materials	<u>\$ 230,401</u>
Home construction, rehabilitation, and repairs in process:	
Home construction and rehabilitation in process	\$ 905,029
Owner-occupied home repairs in process	<u>55,384</u>
Total home construction, rehabilitation, and repairs in process	<u>\$ 960,413</u>

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 5 - Inventories, continued

Property held for sale or future home development:	
Land for development	\$ 755,219
Homes for rehabilitation	<u>528,793</u>
Total property held for sale or future home development	<u>\$1,284,012</u>

Note 6 - Property and equipment, net

Property and equipment consists of the following at June 30, 2017:

Land	\$ 171,400
Buildings and improvements	985,867
Office equipment	257,102
Trucks and trailers	<u>207,323</u>
	1,621,692
Less accumulated depreciation	<u>(438,603)</u>
	<u>\$1,183,089</u>

Depreciation expense on the above assets was \$66,586 for the year ended June 30, 2017.

Note 7 - Beneficial interest in assets held by Community Foundation

Beneficial interest in assets held by Community Foundation represents amounts held at the Community Foundation for the Fox Valley Region, Inc. (the Foundation). The Organization has two funds at the Foundation called the "Greater Fox Cities Area Habitat for Humanity Fund I" (the Fund I) and "Greater Fox Cities Area Habitat for Humanity Fund II" (the Fund II). These funds are legal assets of the Foundation with the restriction that the Foundation makes distributions to the Organization. The agreements governing the assets include a variance power allowing the Foundation to modify the restrictions on distributions from the funds.

The funds were established by the Board of Directors to support the mission of the Organization. Since the funds were created as a result of an internal designation and are not donor restricted, they are classified and reported as unrestricted net assets. Distributions from the funds may be made at the Organization's request.

The Organization works with the Foundation to maximize total return consistent with an acceptable level of risk. Fund assets are invested to balance mild liquidity needs with a reasonable level of expected appreciation over full market cycles.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 7 - Beneficial interest in assets held by Community Foundation, continued

Composition of and changes in the funds' net assets for the year ended June 30, 2017 were as follows:

Board-designated Fund I net assets, beginning of year	\$ 556,498
Contributions	51,203
Net appreciation	36,659
Amount appropriated for expenditure	<u>(51,131)</u>
Board-designated Fund I net assets, end of year	<u>\$ 593,229</u>
Board-designated Fund II net assets, beginning of year	\$ 697,243
Contributions	929,102
Net appreciation	<u>68,064</u>
Board-designated Fund II net assets, end of year	<u>\$ 1,694,409</u>

Note 8 - Mortgage loans receivable

Mortgage loans receivable are recorded at the present value of future payments using a discount rate provided by HFHI. The Organization considers all of the mortgage loans receivable at June 30, 2017 to be fully collectible; accordingly, no allowance for uncollectible accounts has been established.

Mortgage loans receivable at June 30, 2017 are scheduled for collection as follows:

Year ending	
<u>June 30,</u>	
2018	\$ 324,000
2019	316,000
2020	312,000
2021	304,000
2022	286,000
Thereafter	<u>2,945,322</u>
Total mortgage loans receivable	4,487,322
Less discount at rates of 7.39% to 8.48%	<u>(2,313,310)</u>
Present value of mortgage loans receivable	2,174,012
Current portion	<u>324,000</u>
Mortgage loans receivable, less current portion	<u>\$ 1,850,012</u>

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 9 - Rental properties, net

The Organization owns rental properties for use in the Almost Home program. Rental properties consist of the following at June 30, 2017:

Land	\$ 56,500
Rental houses	170,140
Construction in process	<u>79,913</u>
	306,553
Less accumulated depreciation	<u>(5,969)</u>
	<u>\$ 300,584</u>

Depreciation expense on the above assets was \$5,969 for the year ended June 30, 2017.

Note 10 - Line of credit

The Organization has a line of credit agreement with Nicolet National Bank with an available line of \$1,000,000 of which no amounts were outstanding at June 30, 2017. Interest is payable monthly at the prime rate (4.25% at June 30, 2017). Unpaid interest and principal are due April 27, 2018. The line is secured by mortgage loans receivable.

Note 11 - Notes payable

During the year ended June 30, 2017, the Organization received non-interest bearing notes from HFHI. These non-interest bearing notes were internally discounted using a rate of 3%. The discounts on these notes totaled \$4,908 and were included in in-kind contributions on the statement of activities. The discounts are amortized over the respective loan periods and are included in interest expense. During the year ended June 30, 2017, the Organization amortized \$14,699 of discounts related to these and other non-interest bearing notes.

Following is a summary of notes payable at June 30, 2017:

Habitat for Humanity International, Inc.:

Shop fund non-interest bearing notes due in varying monthly principal installments totaling approximately \$7,291, under repayment terms of 48 months, unsecured	\$ 267,238
--	------------

Nicolet National Bank:

Note payable, non-interest bearing, secured by specific mortgage loans receivable with principal payments due monthly based on scheduled principal payments of the underlying mortgage loans receivable (\$1,869 at June 30, 2017), with final principal payment due October 2023	119,610
---	---------

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 11 - Notes payable, continued

Note payable due in monthly installments of \$1,250 plus accrued interest at ICS demand index plus 2.5% (2.78% at June 30, 2017), with a final payment of unpaid principal and interest due November 2018, secured by mortgage loans receivable \$ 246,250

Community First Credit Union:

Note payable due in monthly installments of \$1,745, including interest at 2.95%, with a final payment of unpaid principal and interest due December 2020, secured by mortgage 298,112

Note payable due in monthly installments of \$3,313, including interest at 2.95%, with a final payment of unpaid principal and interest due June 2021, secured by mortgage 575,730

Fox Communities Credit Union:

Note payable, due in monthly installments of \$1,808, including interest at 2.99%, with a final payment of unpaid principal and interest due January 2019, secured by land 282,959

HFHI NMTC Sub-CDE I, LLC:

Note payable, semi-annual interest only payments through November 2023 at approximately 0.68%, then semi-annual payments of principal and interest through December 2044, secured by certain assets and rights of the Organization. The loan and security agreement contains certain debt covenants. Management believes the Organization was in compliance with these covenants at June 30, 2017. In addition, the loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. 1,662,577

Unamortized debt issuance costs (94,106)

3,358,370

Less discount at 3%-5% for non-interest bearing notes (28,546)

Net notes payable 3,329,824

Current maturities 169,414

Notes payable, less current maturities \$3,160,410

During the year ended June 30, 2017, \$3,341 of debt issuance costs were amortized to interest expense.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 11 - Notes payable, continued

The future scheduled maturities for the five years succeeding June 30, 2017 for the above notes payable are as follows:

Year ending <u>June 30,</u>	
2018	\$ 169,414
2019	632,947
2020	116,494
2021	826,247
2022	29,780

Note 12 - Board-designated unrestricted net assets

The board-designated unrestricted net assets include the following at June 30, 2017:

Risk Reserve - The risk reserve includes funds designated to protect the Organization from unforeseen circumstances that may adversely impact its financial stability, ability to serve families or its sustainability. The risk reserve is held approximately one-third in certificates of deposit and two-thirds in the Fund I in the beneficial interest in assets held by Community Foundation (see Note 7).	\$ 896,195
Remainder Reserve - The remainder reserve includes a portion of the proceeds from sales of mortgage loans receivable in this year and prior years. One time per year, funds may be transferred from the remainder reserve to fund operations. The Board of Directors approval is required for uses other than operations. The remainder reserve is held in the Fund II in the beneficial interest in assets held by Community Foundation (see Note 7).	<u>1,694,409</u>
Board-designated unrestricted net assets	<u>\$ 2,590,604</u>

Note 13 - Temporarily restricted net assets

Time restrictions:	
Contributions and grants receivable	\$ 384,784
Purpose restrictions:	
Neighborhood Revitalization program/Rock the Block®	1,087,152
Home construction	71,882
Community development & home assessment specialists wages	4,794
Other	<u>4,200</u>
Temporarily restricted net assets	<u>\$ 1,552,812</u>

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 14 - Multiple-employer defined contribution retirement plan

The Organization has a co-employment agreement with Insperity PEO Services, L.P. The Organization participated in the Insperity 401(k) Plan, which is a multi-employer, defined contribution retirement plan qualified under Section 401(k) of the Internal Revenue Code. The plan covers substantially all the Organization's employees who work at least 1,000 hours during the plan year. The plan provides for a matching contribution by the Organization equal to 50% of the employee's contribution up to 3% of the employee's compensation. In addition, the plan provides for a non-elective contribution equal to 3% of the employee's compensation. For the year ended June 30, 2017, the Organization contributed \$57,678 to the plan.

Note 15 - Leases

The Organization leases store space and equipment under operating leases. These lease agreements provide for monthly rentals ranging from \$393 to \$7,400. Rent expense under these leases was \$118,551 for the year ended June 30, 2017. The leases for the store space and equipment expire in October 2023 and June 2021, respectively.

Future minimum lease payments under the terms of the noncancelable operating leases with initial terms of one year or more are approximately as follows:

Year ending <u>June 30,</u>	
2018	\$ 93,500
2019	95,500
2020	96,500
2021	96,500
2022	93,800
Thereafter	<u>126,400</u>
Total minimum payments required	<u>\$ 602,200</u>

Note 16 - Transactions with Habitat for Humanity International, Inc.

The Organization annually tithes 10% of its contributions (excluding restricted and in-kind contributions) to HFHI. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2017, the Organization tithed \$77,130 to HFHI. Of this amount, \$5,013 is in accounts payable at June 30, 2017.

U.S. affiliates are required to pay an annual fee to HFHI to offset a portion of the costs associated with efforts that benefit all affiliates - efforts such as brand protection and promotion, regulatory advocacy and gift-in-kind solicitation. For the year ended June 30, 2017, the Organization paid a fee of \$15,000 to HFHI.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 16 - Transactions with Habitat for Humanity International, Inc., continued

HFHI receives grants from the United States Department of Housing and Urban Development (HUD) in the Self-Help Homeownership Opportunity Program (SHOP). For the year ended June 30, 2017, HFHI made \$146,787 of these grants available to the Organization to purchase land for development and necessary infrastructure improvements. Of this amount, \$134,561 is in contributions and grants receivable at June 30, 2017.

The Organization had non-interest bearing notes payable with HFHI (see Note 11). During the year ended June 30, 2017, the Organization amortized \$9,015 of the discounts related to these non-interest bearing notes.

Note 17 - Functional classification of expenses

Expenses by function for the year ended June 30, 2017 was as follows:

Program services	\$ 5,141,036
Supporting activities:	
Management and general	329,802
Fundraising	<u>252,983</u>
	<u>\$ 5,723,821</u>

Note 18 - Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. Accounting standards have established a hierarchy of valuation techniques used to measure fair value. This hierarchy consists of three broad levels: Level 1 consists of unadjusted quoted prices in active markets for identical assets, Level 2 consists of inputs observable in the marketplace other than quoted prices in active markets for identical assets, and Level 3 consists of significant inputs unobservable in the marketplace.

The Organization's beneficial interest in assets held by Community Foundation is carried at fair value. The fair value is provided by the Foundation and consists of the right to receive cash flows from the Foundation. The fair value provided by the Foundation is considered a level 3 input. Fair value is determined by allocating a portion of the Foundation's investment pools.

GREATER FOX CITIES AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS, CONTINUED
June 30, 2017

Note 18 - Fair value measurement, continued

The following is a reconciliation of beginning and ending balances for assets measured at fair value on a recurring basis using significant unobservable inputs (Level 3) during the year ended June 30, 2017:

Beginning balance - July 1, 2016	\$ 1,253,741
Purchases	980,305
Net gains, realized and unrealized, included in change in net assets	104,723
Distributions	<u>(51,131)</u>
Ending balance - June 30, 2017	<u>\$ 2,287,638</u>
Change in unrealized gains related to Level 3 assets still held at June 30, 2017	<u>\$ 104,723</u>

Note 19 - Option agreement

On August 19, 2015, the Organization's joint venture, HFHI NMTC Leverage Lender 2013-1, LLC (Leveraged Lender), entered into an option agreement with U.S. Bancorp Community Development Corporation (USBCDC), the sole member of the HFHI Investment Fund 1, LLC (the Fund), which is the upstream effective owner of HFHI NMTC Sub-CDE I, LLC. Under this agreement, Leveraged Lender granted USBCDC an option (the Put) to sell all of its ownership interest in the Fund to Leveraged Lender for \$1,000 plus certain closing costs within 6 months following August 19, 2022. If USBCDC does not sell its ownership interest in the Fund to Leveraged Lender, Leveraged Lender will have the right and option (the Call) to purchase all of the ownership in the Fund within 12 months for the fair value of the ownership interest plus certain closing costs. Exercise of the option would effectively allow the Organization to extinguish its outstanding debt owed to HFHI NMTC Sub-CDE I, LLC.

Note 20 - Subsequent event

Subsequent to June 30, 2017, the Organization is expected to purchase a building and land for approximately \$2,140,000 of which approximately \$1,750,000 will be financed by a loan from Community First Credit Union. The loan is expected to be due in monthly installments of approximately \$8,300, including interest at 2.95%, with a final payment of unpaid principal and interest due November 2022. The building and land will serve as security on the loan. This building will be used for the Organization's second ReStore location, which is expected to open in early 2018.