# Habitat for Humanity of Kent County, Inc.

## Financial Report
## with Additional Information
## June 30, 2017

# Habitat for Humanity of Kent County, Inc.

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Plante & Moran, PLLC
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

# Independent Auditor's Report

To the Board of Directors
Habitat for Humanity of Kent County, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Kent County, Inc. (Habitat), which comprise the balance sheet as of June 30, 2017 and 2016 and the related statements of activities and changes in net assets 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 for Humanity of Kent County, Inc. as of June 30, 2017 and 2016 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.

To the Board of Directors
Habitat for Humanity of Kent County, Inc.

***Emphasis of Matter***

As discussed in Note 15 to the basic financial statements, the 2016 basic financial statements have been restated to correct a misstatement. Our opinion is not modified with respect to this matter.

Plante & Moran, PLLC

September 22, 2017

# Habitat for Humanity of Kent County, Inc.

## Balance Sheet

| | June 30, 2017 | June 30, 2016 (As restated) |
|---|---|---|
| **Assets** | | |
| Cash and cash equivalents | $ 252,695 | $ 1,169,751 |
| Unconditional promises to give and other receivables - Net (Note 3) | 1,241,919 | 1,500,119 |
| Inventory | 880,730 | 842,142 |
| Noninterest-bearing mortgage notes receivable (Note 4) | 7,758,620 | 7,773,020 |
| Homes under construction - Net | 1,139,585 | 1,148,715 |
| Grants receivable | 159,972 | 83,731 |
| Other assets | 30,363 | 85,974 |
| Beneficial interest in funds held at a community foundation (Note 5) | 82,439 | 62,700 |
| Property held for sale or future home development - Net | 2,289,057 | 1,282,017 |
| Property and equipment - Net (Note 6) | 2,228,551 | 2,277,803 |
| Cash held for long-term use | 123,388 | 165,420 |
| Investments in joint ventures (Note 14) | 4,188,452 | 4,188,452 |
| Total assets | **$ 20,375,771** | **$ 20,579,844** |
| **Liabilities and Net Assets** | | |
| **Liabilities** | | |
| Accounts payable | $ 125,277 | $ 162,172 |
| Accrued expenses | 253,730 | 205,308 |
| Line of credit (Note 7) | 200,000 | - |
| Debt (Note 8) | 6,340,196 | 6,225,940 |
| Deferred revenue (Note 14) | 116,217 | 164,021 |
| Total liabilities | 7,035,420 | 6,757,441 |
| **Net Assets** | | |
| Unrestricted | 13,087,880 | 13,174,013 |
| Temporarily restricted (Note 9) | 178,346 | 585,690 |
| Permanently restricted net assets (Note 5) | 74,125 | 62,700 |
| Total net assets | 13,340,351 | 13,822,403 |
| Total liabilities and net assets | **$ 20,375,771** | **$ 20,579,844** |

# Habitat for Humanity of Kent County, Inc.

## Statement of Activities and Changes in Net Assets

| | Year Ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | June 30, 2017 | | | | June 30, 2016 (As restated) | | | |
| | Unrestricted | Temporarily Restricted | Permanently Restricted | Total | Unrestricted | Temporarily Restricted | Permanently Restricted | Total |
| **Revenue and Support** | | | | | | | | |
| House sponsorship revenue | $ - | $ 447,431 | $ - | $ 447,431 | $ - | $ 911,396 | $ - | $ 911,396 |
| In-kind contributions | 488,252 | - | - | 488,252 | 523,599 | - | - | 523,599 |
| Grant revenue | - | 5,164 | - | 5,164 | - | 147,517 | - | 147,517 |
| Other cash contributions | 1,560,752 | 200,728 | 11,425 | 1,772,905 | 2,516,018 | 64,499 | 62,700 | 2,643,217 |
| Federal grant revenue | 132,044 | - | - | 132,044 | 127,816 | - | - | 127,816 |
| Transfers to homeowners | 1,166,500 | - | - | 1,166,500 | 1,545,000 | - | - | 1,545,000 |
| ReStore revenue | 1,720,161 | - | - | 1,720,161 | 1,718,998 | - | - | 1,718,998 |
| Mortgage discount amortization | 699,540 | - | - | 699,540 | 694,665 | - | - | 694,665 |
| Interest income | 4,210 | - | - | 4,210 | 3,431 | - | - | 3,431 |
| Miscellaneous income | 256,428 | - | - | 256,428 | 442,887 | - | - | 442,887 |
| Total revenue and support | 6,027,887 | 653,323 | 11,425 | 6,692,635 | 7,572,414 | 1,123,412 | 62,700 | 8,758,526 |
| Net assets released from restrictions | 1,060,667 | (1,060,667) | - | - | 1,388,485 | (1,388,485) | - | - |
| Total revenue, support, and net assets released from restrictions | 7,088,554 | (407,344) | 11,425 | 6,692,635 | 8,960,899 | (265,073) | 62,700 | 8,758,526 |
| **Expenses** | | | | | | | | |
| Program services: | | | | | | | | |
| Construction and program services | 3,767,368 | - | - | 3,767,368 | 4,042,274 | - | - | 4,042,274 |
| ReStore | 1,590,154 | - | - | 1,590,154 | 1,448,185 | - | - | 1,448,185 |
| Discount on mortgage originations | 596,640 | - | - | 596,640 | 680,987 | - | - | 680,987 |
| Total program services | 5,954,162 | - | - | 5,954,162 | 6,171,446 | - | - | 6,171,446 |
| Support services: | | | | | | | | |
| Management and general | 552,718 | - | - | 552,718 | 518,153 | - | - | 518,153 |
| Fundraising | 667,807 | - | - | 667,807 | 554,459 | - | - | 554,459 |
| Total support services | 1,220,525 | - | - | 1,220,525 | 1,072,612 | - | - | 1,072,612 |
| Total expenses | 7,174,687 | - | - | 7,174,687 | 7,244,058 | - | - | 7,244,058 |
| **(Decrease) Increase in Net Assets** | (86,133) | (407,344) | 11,425 | (482,052) | 1,716,841 | (265,073) | 62,700 | 1,514,468 |
| **Net Assets** - Beginning of year | 13,174,013 | 585,690 | 62,700 | 13,822,403 | 11,457,172 | 850,763 | - | 12,307,935 |
| **Net Assets** - End of year | **$ 13,087,880** | **$ 178,346** | **$ 74,125** | **$ 13,340,351** | **$ 13,174,013** | **$ 585,690** | **$ 62,700** | **$ 13,822,403** |

# Habitat for Humanity of Kent County, Inc.

## Statement of Cash Flows

| | Year Ended June 30, 2017 | Year Ended June 30, 2016 (As restated) |
|---|---|---|
| **Cash Flows from Operating Activities** | | |
| (Decrease) increase in net assets | $ (482,052) | $ 1,514,468 |
| Adjustments to reconcile (decrease) increase in net assets to net cash from operating activities: | | |
| Depreciation | 158,841 | 151,922 |
| Discount on noninterest-bearing mortgage notes | 596,640 | 680,987 |
| Mortgage discount amortization | (699,540) | (694,665) |
| Donated inventory | (333,654) | (305,855) |
| Donated land for home construction | (109,348) | (146,200) |
| Donated fixed assets | - | (2,500) |
| Donated services for home construction | (45,249) | (69,044) |
| Foreclosures | 42,296 | - |
| Change in beneficial interest | (19,739) | (62,700) |
| Bad debt expense | 24,739 | 15,985 |
| Loss on sale of property and equipment | 4,832 | - |
| Unrealized gains on property held for sale or future home development | (39,300) | (187,800) |
| Changes in operating assets and liabilities which provided (used) cash: | | |
| Unconditional promises to give | 233,461 | (613,971) |
| Grants receivable | (76,241) | 19,444 |
| Inventory | 295,066 | 270,051 |
| Deferred revenue | (47,804) | (47,805) |
| Homes under construction | (1,035,520) | (927,342) |
| Other assets | 55,611 | (6,996) |
| Property held for sale or future home development | (858,392) | 205,954 |
| Accounts payable and accrued expenses | 11,527 | (155,082) |
| Amortization of debt issuance fees | 76,389 | 76,390 |
| Net cash used in operating activities | (2,247,437) | (284,759) |
| **Cash Flows from Investing Activities** | | |
| Cash held for long-term use | 42,032 | 41,795 |
| Purchase of property and equipment | (108,408) | (83,731) |
| Collections on mortgages receivable | 1,164,903 | 1,170,705 |
| Net cash provided by investing activities | 1,098,527 | 1,128,769 |
| **Cash Flows from Financing Activities** | | |
| Payments on long-term debt | (131,146) | (118,682) |
| Proceeds from long-term debt | 163,000 | 387,000 |
| Net proceeds from (payments on) line of credit | 200,000 | (25,265) |
| Net cash provided by financing activities | 231,854 | 243,053 |
| **Net (Decrease) Increase in Cash and Cash Equivalents** | (917,056) | 1,087,063 |
| **Cash and Cash Equivalents** - Beginning of year | 1,169,751 | 82,688 |
| **Cash and Cash Equivalents** - End of year | **$ 252,695** | **$ 1,169,751** |

See Notes to Financial Statements.

## Note 1 - Nature of Business and Significant Accounting Policies

**Nature of Organization** - Habitat for Humanity of Kent County, Inc. (Habitat) is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian organization. The mission of Habitat for Humanity of Kent County, Inc. is, by seeking to put God's love into action, to bring people together to build homes, communities, and hope. In addition, Habitat cooperates with other charitable organizations in working to develop better living conditions for economically disadvantaged people. Although Habitat for Humanity International, Inc. assists with informational resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat's primary program activity is the construction, renovation, sale, and financing of houses for individuals in need in Kent, eastern Ottawa, and northern Allegan counties. These individuals participate in the construction of their own homes and other homes constructed through the efforts of Habitat.

Habitat also operates three stores (ReStore) that sell affordable home building materials and furnishings. A significant amount of ReStore inventory is donated.

**Basis of Presentation** - The financial statements have been prepared on the accrual basis of accounting.

**Cash and Cash Equivalents** - Habitat considers all investments with an original maturity date of three months or less to be cash equivalents. Habitat's cash balance deposits are fully insured up to FDIC limits. Amounts on deposit in excess of such limits were $0 and $897,711 as of June 30, 2017 and 2016, respectively.

**Cash Held for Long-term Use** - Cash held for long-term use relates to cash balances associated with the New Markets Tax Credit investments.

**Promises to Give** - Unconditional promises to give, consisting of individual, foundation, church, and corporate sponsorships, are recognized as revenue when the gifts' underlying promises are received by Habitat. Unconditional promises to give are stated at the amount management expects to collect from outstanding balances, discounted to present value.

Habitat uses the allowance method to account for uncollectible promises to give. The allowance is calculated using an estimated percentage of outstanding balances based on management's experience. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to unconditional promises to give.

Conditional promises to give are recognized when the conditions upon which they depend are substantially met.

## Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Grants Receivable** - Grants receivable consist of amounts due from various funding sources for the purpose of funding home construction. The grants provide for reimbursement of qualifying costs incurred, as defined in the underlying grant agreements. Management believes the balances in grants receivable to be fully collectible.

**Inventory** - Inventory consists of home building materials used in the construction of Habitat's homes and items sold at the ReStores, substantially all of which are donated and recorded at fair value at the time of donation and determined by the use of the first-in, first-out (FIFO) method of valuation.

**Homes Under Construction** - Costs incurred in conjunction with home construction are recorded as assets until the sale of the home with a reserve to bring them to the lower of cost or market.

**Noninterest-bearing Mortgage Notes Receivable** - Mortgage receivables consist of noninterest-bearing mortgages, which are secured by real estate and payable in monthly installments. Most of the mortgages have an original maturity of 15-30 years. These mortgages have been discounted at various rates ranging from 7.47 percent to 9 percent based on prevailing market rates at the inception of the mortgages. Interest income (amortization of the discount) is recorded over the lives of the mortgages.

Management does not believe that an allowance is necessary for uncollectible balances due to the fact that the balances are secured by the related homes.

**Deferred Revenue** - Revenue related to the New Markets Tax Credit activity is recognized as income over the period of the agreement.

**Property Held for Sale or Future Home Development** - Property held for sale or future home development consists of (a) homes that have been reacquired due to collection problems with the homeowner and are expected to be transferred to new homeowners within the next year, (b) purchased or donated land that will be developed for future home construction, (c) homes that have been reacquired from previous homeowners that will be sold on the open market, and (d) properties acquired for renovations to be sold to new homeowners within the next year. Properties held are valued at the lower of cost or market value.

**Debt Issuance Fees** - Debt issuance fees are recorded as a reduction in the recorded balance of the outstanding debt. The costs are amortized over the life of the debt using the straight-line method and are reported as a component of interest expense. Debt issuance fees consist of $663,926 of fees paid in connection with the issuance of debt, discussed in Note 14. The amortization portion of the interest expense was $76,389 and $76,390 in 2017 and 2016, respectively. Accumulated amortization was $352,952 and $276,563 at June 30, 2017 and 2016, respectively.

## Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Property and Equipment** - Property and equipment are recorded at cost when purchased or at fair value at the date of donation and are being depreciated on a straight-line basis over their estimated useful lives. Costs of maintenance and repairs are charged to expense when incurred.

Habitat reports gifts of property, plant, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of property, plant, and equipment with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire property, plant, and equipment are reported as restricted support. Absent explicit donor stipulations about how long the property, plant, and equipment must be maintained, Habitat reports expirations of donor restrictions over time based on an estimate of the useful lives of the donated or acquired property, plant, and equipment.

**Investments in Joint Ventures** - Investments in joint ventures represent investments in which Habitat is not able to exercise significant influence and are carried at cost. Distributions received are included in income, except for those dividends received in excess of Habitat's proportionate share of accumulated earnings, which are applied as a reduction of the cost of the investment. Impairment losses due to a decline in the value of the investment that is other than temporary are recognized when incurred. No impairment losses were recognized in 2017 or 2016 (see Note 14).

**Classification of Net Assets** - Net assets of Habitat are classified as unrestricted, temporarily restricted, or permanently restricted depending on the presence and characteristics of donor-imposed restrictions limiting Habitat's ability to use or dispose of contributed assets or the economic benefits embodied in those assets. Donor-imposed restrictions that expire with the passage of time or can be removed by meeting certain requirements result in temporarily restricted net assets. If a restricted donation is met within the year of the donation, the revenue is reported as unrestricted. Permanently restricted net assets contain donor-imposed restrictions that stipulate the resources be maintained permanently, but permit Habitat to use or expend part or all of the income derived from the donated assets for specified purposes. In accordance with UPMIFA, investment earnings of endowment funds available for distribution are recorded in temporarily restricted net assets until appropriated for spending under Habitat’s spending policy.

**Contributions** - House sponsorship revenue consists of contributions of cash and other assets, which are reported as revenue when received, measured at fair value. Donor promises to give in the future are recorded at the present value of estimated future cash flows.

### Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Sales to Homeowners** - Sales to homeowners represent the sale of houses by Habitat. The resulting mortgages are noninterest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Habitat recognizes the income from the sales to homeowners on the completed contract method.

**Donated Services and Assets** - In-kind contributions (primarily land, construction materials, and qualifying services) are recorded on receipt at fair value. Amounts that have been reported in the financial statements as voluntary donations of services are those services that create or enhance nonfinancial assets or require specialized skills provided by individuals possessing those skills that would be typically purchased if not provided by donation. Donated services and assets, excluding land, amounted to $378,902 and $376,569 for the years ended June 30, 2017 and 2016, respectively.

A substantial number of volunteers have donated significant amounts of time to Habitat's program services without compensation; however, many of these services were not recognized as contributions in the financial statements because the recognition criterion outlined above was not met. The total number of persons who volunteered was 4,100 volunteering total hours of 54,581 and 4,088 persons volunteering total hours of 55,436 for the years ended June 30, 2017 and 2016, respectively.

**Functional Allocation of Expenses** - The costs of providing program and support services have been reported on a functional basis in the statement of activities and changes in net assets. Indirect costs have been allocated between the various programs and support services based on estimates, as determined by management. Although the methods of allocation used are considered reasonable, other methods could be used that would produce a different amount.

**Federal Income Taxes** - Habitat is exempt from income tax under the provisions of Internal Revenue Code Section 501(c)(3). In addition, Habitat qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2).

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

## Note 1 - Nature of Business and Significant Accounting Policies (Continued)

**Subsequent Events** - The financial statements and related disclosures include evaluation of events up through and including September 22, 2017, which is the date the financial statements were available to be issued.

**Upcoming Accounting Change** - In May 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*, which will supersede the current revenue recognition requirements in Topic 605, *Revenue Recognition*. The ASU is based on the principle that revenue is recognized to depict the transfer of goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The ASU also requires additional disclosure about the nature, amount, timing, and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. The new guidance will be effective for Habitat's year ending June 30, 2020. The ASU permits application of the new revenue recognition guidance to be applied using one of two retrospective application methods. Habitat has not yet determined which application method it will use or the potential effects of the new standard on the financial statements, if any.

The Financial Accounting Standards Board issued ASU No. 2016-14, *Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities*, in August 2016. ASU No. 2016-14 requires significant changes to the financial reporting model of organizations that follow FASB not-for-profit rules, including changing from three classes of net assets to two classes: net assets with donor restrictions and net assets without donor restrictions. The ASU will also require changes in the way certain information is aggregated and reported by Habitat, including required disclosures about the liquidity and availability of resources. The new standard is effective for Habitat's year ending June 30, 2019 and thereafter and must be applied on a retrospective basis. Habitat is currently evaluating the impact this standard will have on the financial statements.

## Note 2 - Change in Accounting Principle

In June 2017, the FASB issued ASU No. 2015-03, *Simplifying the Presentation of Debt Issuance Costs*. The ASU changes the presentation of debt issuance costs in the financial statements by requiring these amounts to be presented as a direct deduction from the carrying amount of the related debt. Also, under this ASU, the amortization of debt issuance costs is required to be reported as interest expense.

### Note 2 - Change in Accounting Principle (Continued)

Habitat adopted this guidance for the year ended June 30, 2017 with retroactive application to the balance sheet and statement of activities and changes in net assets for 2016. The effect of this change within the balance sheet was to decrease assets and long-term debt by $387,363 as of June 30, 2016. The related amortization is calculated on the straight-line method in the amount of approximately $76,400 per year and is recorded as interest expense. Previously, the amortization was reported as an element of depreciation and amortization within the statement of activities and changes in net assets.

### Note 3 - Unconditional Promises to Give and Other Receivables

Unconditional promises to give and other receivables consist of the following:

| | 2017 | 2016 |
|---|---|---|
| Receivable for house sponsorships | $ 1,189,419 | $ 1,240,443 |
| Receivable - Midwest Business Exchange | - | 144,231 |
| Receivable - Capital Campaign | 52,500 | 187,545 |
| Total | 1,241,919 | 1,572,219 |
| Less allowance on Midwest Business Exchange receivable | - | (72,100) |
| Net | $ 1,241,919 | $ 1,500,119 |

Of the $1,241,919 receivable balance as of June 30, 2017, $757,682 is due in 2018, $253,996 is due in 2019, $190,121 is due in 2020, $30,120 is due in 2021, and $10,000 is due in 2022.

### Note 4 - Noninterest-bearing Mortgage Notes

Habitat provides noninterest-bearing mortgage notes for individual homeowners with maturities at various dates through May 2047. Unamortized discounts are amortized using the effective interest rate method over the life of the mortgage at interest rates ranging from 7.47 percent to 9 percent. Noninterest-bearing mortgage notes are periodically evaluated for collectibility based on homeowners' current financial conditions. Provisions for losses are determined on the basis of known risks in the mortgages held and the estimated value of underlying collateral.

Habitat considers a mortgage note receivable to be impaired when, based upon current information and events, it believes it is probable that Habitat will be unable to collect all amounts due according to the contractual terms of the mortgage agreement. Individual mortgages are assessed for impairment based on changes in borrower-specific financial conditions. Habitat did not have any mortgages considered to be impaired as of June 30, 2017 and 2016.

## Note 4 - Noninterest-bearing Mortgage Notes (Continued)

### Noninterest-bearing Mortgage Notes

Noninterest-bearing mortgage notes outstanding as of June 30, 2017 and 2016 are as follows:

| | 2017 | 2016 |
|---|---|---|
| Mortgage notes | $ 13,514,374 | $ 13,631,674 |
| Unamortized discounts | (5,755,754) | (5,858,654) |
| Balance at year end | $ 7,758,620 | $ 7,773,020 |

### Financing Loan Receivables Aging

The following table sets forth the aging of the customer financing loan receivables as of June 30, 2017:

| Delinquency Period | | | | | | |
|---|---|---|---|---|---|---|
| 30-59 Days | 60-89 Days | Greater than 90 Days | Remaining Principal on Delinquent Mortgages | Total Delinquent Mortgage Balances | Current | Total Balance at Year End |
| $ 16,100 | $ 7,765 | $ 14,957 | $ 1,399,132 | $ 1,437,954 | $ 6,320,666 | $ 7,758,620 |

### Allowance for Loan Losses - Noninterest-bearing Mortgage Notes

Management does not believe that an allowance is necessary for uncollectible balances due to the fact that the balances are secured by the related homes.

## Note 5 - Community Foundation Endowment Fund

Beneficial interest in funds held at a community foundation includes amounts held by Grand Rapids Community Foundation (GRCF) for the benefit of Habitat. Habitat has accounted for the transfer of such assets as a beneficial interest in funds held by a community foundation. GRCF refers to such funds as agency fund endowments. GRCF maintains variance power and legal ownership of the funds and, as such, continues to report the funds as assets of GRCF. However, a liability has been established by GRCF for the fair value of the funds, which is generally equivalent to the present value of future payments expected to be made to Habitat. The current value of these funds at June 30, 2017 and 2016 was $82,439 and $62,700, respectively, of which $74,125 and $62,700, respectively, is included in permanently restricted net assets in the balance sheet.

Certain contributions have been made directly to GRCF to benefit Habitat. Contributions can be made to the fund, but only expendable income is available to Habitat. GRCF maintains variance power, which, as a result, requires that the assets it holds not be recorded as assets of Habitat. The value of the funds held at GRCF for the benefit of Habitat was $5,650 and $5,000 at June 30, 2017 and 2016, respectively.

## Note 6 - Property and Equipment

The cost of property and equipment is summarized as follows:

| | 2017 | 2016 | Depreciable Life - Years |
|---|---|---|---|
| Land | $ 100,433 | $ 100,433 | - |
| Buildings | 2,365,504 | 2,365,504 | 10-40 |
| Furniture and fixtures | 473,962 | 449,946 | 3-10 |
| Transportation equipment | 261,982 | 217,190 | 3 |
| Warehouse improvements | 281,932 | 272,698 | 3-5 |
| Warehouse equipment | 116,533 | 115,775 | 3-10 |
| Total cost | 3,600,346 | 3,521,546 | |
| Accumulated depreciation | 1,371,795 | 1,243,743 | |
| Net property and equipment | $ 2,228,551 | $ 2,277,803 | |

Depreciation expense was $158,841 for 2017 and $151,922 for 2016.

## Note 7 - Line of Credit

Habitat has two unsecured lines of credit with two banks, each with available borrowings of $500,000 at June 30, 2017 and 2016. The first $500,000 line of credit to a bank, due on demand, bears interest at the prime rate (the prime rate was 4.25 percent at June 30, 2017 and 3.50 percent at June 30, 2016) and expires on December 5, 2017. The second $500,000 line of credit to a bank, due on demand, bears interest at the prime rate (the prime rate was 4.25 percent at June 30, 2017 and 3.50 percent at June 30, 2016) and expired on August 11, 2017, but was subsequently renewed through August 11, 2018. Habitat had $200,000 and $0 of outstanding borrowings as of June 30, 2017 and 2016, respectively.

## Note 8 - Debt

The following is a summary of debt at June 30:

| | 2017 | 2016 |
|---|---|---|
| Note payable to a community development entity for which the net proceeds, after funding investments in joint ventures, were for the purpose of financing home construction projects, secured by substantially all assets acquired with the loan proceeds, due in January 2026. Debt requires interest-only payments until June 2018 at a rate of 0.75 percent. Semiannual principal reductions begin in June 2018 for a period of eight years. See Note 14 for additional information | $ 1,573,392 | $ 1,573,392 |
| Note payable to a community development entity for which the net proceeds, after funding investments in joint ventures, were for the purpose of financing home construction projects, secured by substantially all assets acquired with the loan proceeds, due in May 2028. Debt requires interest-only payments beginning in November 2012 until November 2020 at a rate of 0.77 percent. Semiannual principal reductions begin in May 2020 for a period of eight years. See Note 14 for additional information | 1,880,000 | 1,880,000 |
| Note payable to a community development entity for which the net proceeds, after funding investments in joint ventures, were for the purpose of financing home construction projects, secured by substantially all assets acquired with the loan proceeds, due in December 2044. Debt requires interest-only payments beginning in May 2015 at a rate of 0.69 percent. Semiannual principal reductions begin in May 2024 for a period of 21 years. See Note 14 for additional information | 2,124,628 | 2,124,628 |

## Note 8 - Debt (Continued)

| | 2017 | 2016 |
|---|---|---|
| Draw loan payable with total available borrowings of $1,070,000 to Grand Rapids Community Foundation, secured by real estate mortgages for the property, payable in quarterly installments, including interest at 3.50 percent, due in April 2018 | $ 1,070,000 | $ 907,000 |
| Noninterest-bearing capital lease obligations with a financial institution payable in monthly installments ranging from $150 to $579. Two obligations were paid in full during 2017. Remaining obligation is due in August 2018 | 3,150 | 1,525 |
| Note payable to Habitat for Humanity International, Inc., secured by certain real estate, payable in quarterly installments of $29,377, including interest at 5.50 percent, paid in full in June 2017 | - | 113,577 |
| Capital lease obligations with a financial institution payable in monthly installments of $338, including interest at 8.73 percent, paid in full in April 2017 | - | 13,181 |
| Total | 6,651,170 | 6,613,303 |
| Less debt issuance fees | (310,974) | (387,363) |
| Long-term portion | $ 6,340,196 | $ 6,225,940 |

The debt service requirements, including noncash debt forgiveness, of the debt based on the terms of the agreements for the succeeding years are as follows:

| | |
|---|---|
| 2018 | $ 1,171,487 |
| 2019 | 196,674 |
| 2020 | 314,174 |
| 2021 | 431,674 |
| 2022 | 431,674 |
| 2023 and after | 4,105,487 |
| Total | $ 6,651,170 |

## Note 9 - Restrictions on Assets

Temporarily restricted net assets consist of contributions for home construction and rehabilitation costs of $178,346 and $585,690 at June 30, 2017 and 2016, respectively. There are no time restrictions imposed on these assets.

## Note 10 - Cash Flows

Cash paid for interest was $82,550 and $73,456 for the years ended June 30, 2017 and 2016, respectively.

Significant noncash activity for the years ended June 30, 2017 and 2016 is as follows:

| | 2017 | 2016 |
|---|---|---|
| Establishment of noninterest-bearing mortgage notes receivable | $ 1,089,900 | $ 1,337,602 |
| Equipment acquired under capital lease | 6,013 | 13,660 |

## Note 11 - Related Party Transactions

Habitat tithes a portion of its unrestricted cash contributions (excluding in-kind contributions and those designated exclusively for Habitat) to Habitat for Humanity International, Inc. These funds are used to construct homes for families in need around the world. Habitat contributed $90,000 and $60,000 for the years ended June 30, 2017 and 2016, respectively. Such amounts are included in program service expenses in the accompanying statement of activities and changes in net assets.

## Note 12 - Retirement Plan

Habitat participates in a tax-deferred annuity plan qualified under Section 403(b) of the Internal Revenue Code. The plan covers all employees. Employees may make contributions to the plan up to the maximum amount allowed by the Internal Revenue Code, if they wish. Habitat contributions for the years ended June 30, 2017 and 2016 were $95,712 and $89,562, respectively.

## Note 13 - Fair Value

Accounting standards require certain assets and liabilities be reported at fair value in the financial statements and provide a framework for establishing that fair value. The framework for determining fair value is based on a hierarchy that prioritizes the valuation techniques and inputs used to measure fair value.

Fair values determined by Level 1 inputs use quoted prices in active markets for identical assets or liabilities that Habitat has the ability to access.

## Note 13 - Fair Value (Continued)

Fair values determined by Level 2 inputs use other inputs that are observable, either directly or indirectly. These Level 2 inputs include quoted prices for similar assets and liabilities in active markets and other inputs such as interest rates and yield curves that are observable at commonly quoted intervals.

Level 3 inputs are unobservable inputs, including inputs that are available in situations where there is little, if any, market activity for the related asset or liability. These Level 3 fair value measurements are based primarily on management’s own estimates using pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or libility. Significant Level 3 inputs include pricing models, discounted cash flow methodologies, or similar techniques taking into account the characteristics of the asset or liability.

In instances whereby inputs used to measure fair value fall into different levels of the fair value hierarchy, fair value measurements in their entirety are categorized based on the lowest level input that is significant to the valuation. Habitat’s assessment of the significance of particular inputs to these fair value measurements requires judgment and considers factors specific to each asset or liability.

Habitat holds a beneficial interest in the assets of a community foundation, which was determined primarily based on Level 3 inputs. Habitat estimates the fair value of these investments based on the underlying value of the investments making up the investment pool. These investments include fixed-income and equity investments.

Income from the community foundation, which consists substantially of interest, dividends, and realized gains, is to be used for unrestricted purposes. Habitat has recorded an asset in the amount of the present value of future benefits, which approximates the market value of the future community foundation's pooled investments. Annually, a percent of the principal balance in the account becomes available to Habitat. Habitat has a process in place to select the appropriate valuation technique and unobservable inputs to perform Level 3 fair value measurements. This process includes review of information and communications received from the community foundation. Significant increases or decreases in any of the inputs in isolation would result in significantly lower or higher fair value measurements.

## Note 14 - Investment in Joint Ventures

In 2011, Habitat for Humanity of Kent County, Inc. participated in a New Markets Tax Credit (NMTC) program. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Habitat invested, along with five other Habitat affiliates, in a joint venture (HFHI-SA Leverage VII, LLC) with 7.168 percent ownership, which loaned the funds to HFHI-SA Investment Fund IV, LLC, an affiliate of HFHI-SA NMTC IV, LLC, to construct low-income housing with 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. As a result, Habitat has invested $1,241,668 and was able to secure a 15-year loan in the amount of $1,573,392 payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used to fund the initial investment and for the purpose of constructing and selling qualified housing properties to low-income residents. The loan accrues interest only for years one through seven at a reduced rate of 0.748174 percent. Beginning in year 8 through year 15, the principal balance of the loan is reduced by an eight-year amortization.

In 2012, Habitat for Humanity of Kent County, Inc. participated in another NMTC program. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Habitat invested, along with nine other Habitat affiliates, in a joint venture (CCML Leverage I, LLC) with 10.0055 percent ownership, which loaned the funds to CCM CD XVII Investment Fund, LLC, an affiliate of CCM Community Development XVII, LLC, to construct low-income housing with 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. As a result, Habitat has invested $1,482,786 and was able to secure a 16-year loan in the amount of $1,880,000 payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used to fund the initial investment and for the purpose of constructing and selling qualified housing properties to low-income residents. The loan accrues interest only for years one through eight at a reduced rate of 0.77161 percent. Beginning in year 9 through year 16, the principal balance of the loan is reduced by an eight-year amortization.

## Note 14 - Investment in Joint Ventures (Continued)

In 2015, Habitat for Humanity of Kent County, Inc. participated in another NMTC program. Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Habitat invested, along with five other Habitat affiliates, in a joint venture (HFHI NMTC SUB-CDE I, LLC) with 9.49 percent ownership, which loaned the funds to HFHI Investment Fund I, LLC, an affiliate of HFHI NMTC Leverage Lender 2013-1, LLC, to construct low-income housing with 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. As a result, Habitat has invested $1,463,998 and was able to secure a 30-year loan in the amount of $2,124,628 payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used to fund the initial investment and for the purpose of constructing and selling qualified housing properties to low-income residents. The loan accrues interest only for years 1 through 10 at a reduced rate of 0.689130 percent. Beginning in year 10 through year 30, the principal balance of the loan is reduced by 20-year amortization.

At the end of the compliance period for all NMTC programs, there is a put option for the participants to acquire the investment funds referred to above and to extinguish the debt with the settlement of each participant's related investment. Habitat received a guarantee fee earned over the compliance periods for each of the NMTC programs and has recorded a liability for the unearned fees.

## Note 15 - Prior Period Adjustment

The accompanying financial statements for 2016 have been restated to correct a cumulative error in the accounting of the amortization of the discount of mortgage notes receivable. Historically Habitat has utilized the straight-line method to amortize interest income related to its mortgage notes receivable issued at zero interest under its home ownership programs. Habitat has regularly assessed this methodology in prior years and determined for many years that the impact on its financial statements was not significant. In the current year, Habitat has reassessed its calculation using the effective interest method and accordingly restated its financial statements to apply the effective interest method.The effect of the restatement on the balance sheet at June 30, 2016 was to increase mortgage notes receivable by $1,272,085. The effect of the restatement on the statement of activities and changes in net assets was to increase the mortgage discount amortization by $100,341 during 2016. There was no effect of the restatement on the statement of cash flows. The restatement increased the unrestricted net assets balance at July 1, 2015 by $1,171,744.

# Additional Information

**Plante & Moran, PLLC**
Suite 400
634 Front Avenue N.W.
Grand Rapids, MI 49504
Tel: 616.774.8221
Fax: 616.774.0702
plantemoran.com

Independent Auditor's Report on Additional Information

To the Board of Directors
Habitat for Humanity of Kent County, Inc.

We have audited the financial statements of Habitat for Humanity of Kent County, Inc. (Habitat) as of and for the years ended June 30, 2017 and 2016 and have issued our report thereon dated September 22, 2017, which contained an unmodified opinion on those financial statements.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying statement of functional expenses is presented for the purpose of additional analysis rather than to present the financial position, changes in its net assets, and cash flows of Habitat for Humanity of Kent County, Inc. and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Plante & Moran, PLLC

September 22, 2017

# Habitat for Humanity of Kent County, Inc.

## Statement of Functional Expenses
## Year Ended June 30, 2017
## (with comparative totals for the year ended June 30, 2016)

| | Program Services | | | | Support Services | | | Total Expenses | |
|---|---|---|---|---|---|---|---|---|---|
| | Construction and Program Services | ReStore | Discount on Mortgage Originations | Total | Management and General | Fundraising | Total | 2017 | 2016 |
| Cost of homes transferred | $ 2,187,614 | $ - | $ - | $ 2,187,614 | $ - | $ - | $ - | $ 2,187,614 | $ 2,491,579 |
| Mortgage discounts | - | - | 596,640 | 596,640 | - | - | - | 596,640 | 680,987 |
| Salaries and benefits | 878,661 | 897,195 | - | 1,775,856 | 269,186 | 476,185 | 745,371 | 2,521,227 | 2,296,574 |
| Professional fees | 42,261 | 1,463 | - | 43,724 | 93,895 | 20,930 | 114,825 | 158,549 | 160,395 |
| Postage printing promotions | 64,545 | 45,568 | - | 110,113 | 1,410 | 23,039 | 24,449 | 134,562 | 93,359 |
| Occupancy | 115,568 | 188,720 | - | 304,288 | 6,702 | 9,530 | 16,232 | 320,520 | 349,911 |
| Depreciation | 61,673 | 67,257 | - | 128,930 | 14,651 | 15,260 | 29,911 | 158,841 | 151,922 |
| HFHI tithe | 90,000 | - | - | 90,000 | - | - | - | 90,000 | 60,000 |
| Uncollectible pledges | - | - | - | - | - | 24,739 | 24,739 | 24,739 | 15,985 |
| Insurance | 34,459 | 11,079 | - | 45,538 | 1,697 | 493 | 2,190 | 47,728 | 49,440 |
| Transportation and travel | 25,865 | 34,660 | - | 60,525 | 3,664 | 5,101 | 8,765 | 69,290 | 75,845 |
| Office supplies and equipment | 41,835 | 28,089 | - | 69,924 | 12,589 | 31,190 | 43,779 | 113,703 | 121,272 |
| Interest | 40,958 | 3,931 | - | 44,889 | 115,472 | - | 115,472 | 160,361 | 157,760 |
| Telephone | 21,697 | 11,629 | - | 33,326 | 4,408 | 5,568 | 9,976 | 43,302 | 51,943 |
| Volunteer and donor recognition | 14,319 | 814 | - | 15,133 | 2,915 | 31,174 | 34,089 | 49,222 | 22,758 |
| Construction supplies and tools | 48,520 | 1,775 | - | 50,295 | - | - | - | 50,295 | 42,893 |
| Bank charges | 37,793 | 32,094 | - | 69,887 | 3,406 | 1,776 | 5,182 | 75,069 | 63,452 |
| Cost of purchased inventory | - | 242,266 | - | 242,266 | - | - | - | 242,266 | 259,581 |
| Training and conferences | 25,004 | 6,124 | - | 31,128 | 12,120 | 15,789 | 27,909 | 59,037 | 31,740 |
| Dues and memberships | 12,012 | 9,170 | - | 21,182 | 4,406 | 5,250 | 9,656 | 30,838 | 29,185 |
| Employee relations | 5,378 | 3,804 | - | 9,182 | 1,425 | 1,402 | 2,827 | 12,009 | 14,756 |
| Other | 19,206 | 4,516 | - | 23,722 | 4,772 | 381 | 5,153 | 28,875 | 22,721 |
| Total functional expenses | **$ 3,767,368** | **$ 1,590,154** | **$ 596,640** | **$ 5,954,162** | **$ 552,718** | **$ 667,807** | **$ 1,220,525** | **$ 7,174,687** | **$ 7,244,058** |