

**HABITAT FOR HUMANITY,
LAKE COUNTY, ILLINOIS, INC.**
Waukegan, Illinois

ANNUAL FINANCIAL REPORT

JUNE 30, 2019

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.

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D A M , S N E L L & T A V E I R N E , L T D .

C E R T I F I E D • P U B L I C • A C C O U N T A N T S

MATTHEW DABROWSKI, CPA
BARBARA HARPOLD, CPA
SCOTT LANNERS, CPA

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity, Lake County, Illinois, Inc.
Waukegan, Illinois

We have audited the accompanying financial statements of Habitat for Humanity, Lake County, Illinois, Inc., (a nonprofit organization) which comprise the statement of financial position as of June 30, 2019, and the related statements of activities and changes in net assets, 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 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 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 of 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, Lake County, Illinois, Inc. as of June 30, 2019, 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 described in Note 1 of the financial statements, the entity implemented Accounting Standards Update 2016-14. The adoption of the standard resulted in additional disclosures and changes to classification of net assets and related disclosures. Our opinion was not modified with respect to this matter.

Dam, Snell & Taveirne, Ltd.

Dam, Snell & Taveirne, Ltd.
Fox Lake, Illinois
November 16, 2019

Habitat for Humanity, Lake County, Illinois, Inc.
Statement of Financial Position
June 30, 2019

Assets

Current Assets	
Cash	\$ 2,323,963
Restricted cash	207,402
Mortgages receivable, net - current portion (note 4)	452,595
Construction inventory (note 1)	4,093
Homes under construction (note 3)	692,037
Completed home inventory	67,718
Other current assets	<u>47,462</u>
 Total Current Assets	 3,795,270
 Land held for development	 68,305
 Property and equipment, net (note 1,5)	 111,776
 Mortgages receivable, net - long term (note 4)	 <u>3,854,799</u>
 Total Assets	 <u>\$ 7,830,150</u>

Liabilities and Net Assets

Current Liabilities	
Accounts payable and accrued liabilities	\$ 180,754
Homeowner escrows	<u>207,402</u>
 Total Current Liabilities	 <u>388,156</u>
 Total Liabilities	 <u>388,156</u>
 Net Assets	
Without donor restrictions	5,675,686
With donor restrictions (note 10)	<u>1,766,308</u>
 Total Net Assets	 <u>7,441,994</u>
 Total Liabilities and Net Assets	 <u>\$ 7,830,150</u>

See accompanying notes to the financial statements

Habitat for Humanity, Lake County, Illinois, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2019

Changes in Net Assets without Donor Restrictions:

Revenues	
Contributions	\$ 357,548
Grants	98
Sales of homes	734,000
Amortization of mortgage discount	388,535
Donated materials and assets	16,063
Income from sales of donated materials, net of related expenses	83,409
Other income	<u>30,192</u>
Total revenues without donor restrictions	1,609,845
Net assets released from restrictions	
Restrictions satisfied (note 10)	<u>635,377</u>
Total revenue without restrictions and other support	<u>2,245,222</u>
Functional expenses	
Program services ¹	2,016,798
General support services	235,177
Fundraising	<u>198,963</u>
Total functional expenses	<u>2,450,938</u>
Increase (decrease) in net assets without donor restrictions	(205,716)
Net assets without donor restrictions, beginning of year	<u>5,881,402</u>
Net assets without donor restrictions, end of year	<u>\$ 5,675,686</u>

Changes in Net Assets with Donor Restrictions:

Contributions	\$ 632,896
Grants	30,000
Restrictions satisfied (note 10)	<u>(635,377)</u>
Increase (decrease) in net assets with donor restrictions	27,519
Net assets with donor restrictions, beginning of year	<u>1,738,789</u>
Net assets with donor restrictions, end of year	<u>\$ 1,766,308</u>

See accompanying notes to the financial statements

Habitat for Humanity, Lake County, Illinois, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2019

	Program Services	General Support Services	Fund- raising	Total Expenses
Computer software and maintenance	\$ 6,628	\$ 4,441	\$ 6,136	\$ 17,205
Transfers to homeowners (note 2)	1,532,516	-	-	1,532,516
Home pricing adjustment expense	15,454	-	-	15,454
Nonrecovered project costs	29,050	-	-	29,050
Construction supplies, tools, rentals	14,148	-	-	14,148
Americorp expenses	14,692	-	-	14,692
Credit checks	1,890	-	-	1,890
Depreciation	22,595	1,937	7,747	32,279
Dues and subscriptions	635	20	-	655
Food, lodging and travel	427	-	1,480	1,907
Tithe to Habitat for Humanity Int'l. (note 12)	38,662	-	-	38,662
Insurance - liability	8,858	2,340	1,572	12,770
Insurance - workers compensation	17,195	8,347	8,347	33,889
Land holding costs	46,337	-	-	46,337
Licenses and permits	200	-	-	200
Newsletters	-	-	4,822	4,822
Office supplies and expenses	912	1,938	557	3,407
Other expense	43	38,250	-	38,293
Postage and freight	878	412	1,374	2,664
Printing	104	24	137	265
Professional services	-	46,073	-	46,073
Public relations and advertising	-	-	2,323	2,323
Rent (note 6)	19,200	-	-	19,200
Repairs and maintenance	8,308	4,061	3,186	15,555
Salaries	170,774	109,796	139,299	419,869
Payroll taxes and benefits	42,008	14,400	18,245	74,653
Telephone	4,483	2,219	2,262	8,964
Training	1,000	-	493	1,493
Utilities	7,941	919	983	9,843
Vehicle expense	11,860	-	-	11,860
Total Functional Expenses	<u>\$ 2,016,798</u>	<u>\$ 235,177</u>	<u>\$ 198,963</u>	<u>\$2,450,938</u>

Habitat for Humanity, Lake County, Illinois, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2019

Cash flows from operating activities:	
Change in net assets	\$ (178,197)
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	32,279
Amortization of mortgage discount	(388,535)
Inventory	(431)
Completed home inventory	(67,718)
Net cost of homes transferred to homeowners	762,446
Other current assets	(32,987)
Accounts payable and accrued liabilities	15,538
Homeowner escrows	(9,921)
Net cash provided by (used in) operating activities	<u>132,474</u>
Cash flows from investing activities:	
Purchases of property and equipment	(81,479)
Construction costs paid	(872,193)
Collection of mortgage principal	<u>518,098</u>
Net cash provided by (used in) investing activities	<u>(435,574)</u>
Net increase (decrease) in cash and cash equivalents	(303,100)
Cash and cash equivalents at beginning of year	<u>2,834,465</u>
Cash and cash equivalents at end of year	<u><u>\$ 2,531,365</u></u>
Reconciliation to the financial statements	
Cash	\$ 2,323,963
Restricted cash	<u>207,402</u>
	<u><u>\$ 2,531,365</u></u>

See accompanying notes to the financial statements

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Habitat for Humanity, Lake County, Illinois, Inc. (HFH) is an ecumenical Christian nonprofit organization established in 1989 to sponsor the construction and financing of modest, affordable housing for low-income families in Lake County, Illinois.

HFH raises funds and gathers volunteers locally and therefore, is largely dependent upon the economic health of the community. Local contributions are supplemented in part by foundations and government grants. During the year June 30, 2019, cash donations were provided by numerous supporters, with no donors contributing 10% or more of total revenues.

HFH operates a discount home and building supply store (the “ReStore”) which accepts donations of reusable building materials and other home improvement items and then resells these items to the public at affordable prices. The program has multi-faceted benefits in that it provides an alternative to disposal in the landfill for such donations and, at the same time, is a low cost resource of materials for the community. In addition, the ReStore provides jobs and employment opportunities for the community. All proceeds of the operation are used to fund construction of affordable housing.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America applicable to not-for-profit organizations. Accrual basis accounting requires that revenues are recognized when earned and expenses are recognized when incurred, regardless of the time of receipt or payment.

Basis of Presentation

Net assets, revenues, gains and losses are classified based on the existence or absence of donor-imposed restrictions. HFH implemented Accounting Standards Update 2016-14 during the current year and accordingly, net assets of HFH and changes therein are classified as follows:

- Net Assets without Donor Restrictions – Net assets that are not subject to donor-imposed restrictions.
- Net Assets with Donor Restrictions – Net assets that are subject to donor-imposed stipulations that may or will be met, either by actions of HFH and/or passage of time. When a restriction expires, the net assets are reclassified to net assets without donor restrictions and reported in the Statement of Support, Revenue, and Expenses as net assets released from restrictions.

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Support and revenue are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or law. Expiration of temporary restrictions on net assets (i.e. the donor stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reclassified from net assets with donor restrictions to net assets without donor restrictions in the statement of activities.

Cash and Cash Equivalents

Cash deposits held in banks at year-end in excess of the federally insured limits was \$407,332. HFH has not experienced any such losses relating as a result of the excess deposits.

For purposes of the Statement of Cash Flows, cash equivalents consist of all highly liquid investments with maturity dates of three months or less.

Restricted Cash

HFH collects monthly escrow payments for insurance and property tax bills, on behalf of homeowners housed by HFH, and then pays the related bills. These funds are not otherwise available for use by HFH. A corresponding liability is included in the accompanying Statement of Financial Position.

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for specific purposes are reported as temporarily restricted support which increases those net asset classes. Contributions with restrictions are reported whether the restriction is satisfied in the current year or following years. When a restriction is satisfied, temporarily restricted net assets are reclassified to net assets without restrictions and reported in the Statement of Activities as net assets are released from restrictions.

Grant Revenue

HFH has applied for and been awarded funding from various grant programs. HFH recognizes the award as revenue either when the cash is received or when the conditions stipulated in the grant agreement have been fulfilled, whichever comes first. In most

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

cases, the grant terms require that HFH incur the building or operating expenses before being eligible to receive the grant award.

Donated Services

HFH receives significant amount of donated services from unpaid volunteers who assist in the construction of homes. No amounts have been recognized in the financial statements for those services since they do not meet the criteria for recognition under financial accounting standards.

Property and Equipment

Property and equipment is stated at cost. It is the Organization's policy to capitalize expenditures for these items which have a cost in excess of \$500 and a useful life greater than one year. Lesser amounts are expensed as incurred. Property and equipment are being depreciated on the straight-line method over the estimated useful lives as follows:

Vehicles	5-10 years
Computer equipment	3 years
Construction equipment	5-7 years
Office equipment	5-7 years
Leasehold improvements	5 years

Compensated Absences

Employees earn leave days each year, based on the length of service, for use as personal time off. Leave time vests when it is earned, and has been reported as part of accounts payable and accrued liabilities.

Functional Allocation of Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the Statement of Activities and in detail on the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the program and supporting services. Such allocations are determined by management on an equitable basis.

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.
Notes to Financial Statements
June 30, 2019

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires the use of management's estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Income Taxes

HFH is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, HFH has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income during the year. As of June 30, 2019, management did not identify any uncertain tax positions. HFH's tax returns are no longer subject to examination by the Internal Revenue Service for years prior to June 30, 2016.

Construction Inventory

Inventory consists of construction supplies to be used for future home construction and is recorded at the lower of cost or market using the first-in, first-out method.

Building materials for resale are donated to the ReStore and no value is assigned to them. As a result, there is no corresponding cost for goods sold or inventory.

NOTE 2 – LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

HFH does not have any contractual or donor-imposed restrictions that would reduce the availability of its financial assets within one year of the balance sheet date.

NOTE 3 – TRANSFERS TO HOMEOWNERS

Homes are recorded as transferred to homeowners at the time the homeowner moves in. The full sales price is based on an independent appraisal. The homeowners sign a first mortgage with HFH with an amount based on 30% or less of their income, which is typically below market value of the house. The homeowners may also sign additional forgivable mortgages with other grantors and with HFH, bringing the total of all mortgages to the appraised value. Six new homes were transferred during the year. The amount of the transfer is the cost of land and construction less the present value of new mortgages issued.

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.
Notes to Financial Statements
June 30, 2019

The following table shows the amounts transferred to homeowners:

Amount of transfers to homeowners:		
Costs of land		\$ 38,254
Costs of construction		1,030,711
Costs of infrastructure		-
Amount of new mortgages:		
Face value	\$ 734,000	
Less discount	<u>(463,551)</u>	
Present value of new mortgages		<u>(270,449)</u>
Net transfer to homeowners		<u><u>\$ 798,516</u></u>
Reconciliation to financial statements:		
Transfers to homeowners		\$ 1,532,516
Sale of homes		<u>734,000</u>
Net transfer to homeowners		<u><u>\$ 798,516</u></u>

NOTE 4 – HOMES UNDER CONSTRUCTION

Construction costs are charged to construction in progress as incurred. As of June 30, 2019, nine homes were under construction. All homes are located in Lake County, Illinois.

NOTE 5 – MORTGAGES RECEIVABLE

Completed homes are leased to the homeowner prior to closing for a period of up to one year with an option to purchase. The lease allows all rental payments to be applied in full to the sale price and virtually all homeowners complete the purchase of the home. The full sales price is based on an independent appraisal. The homeowners sign a first mortgage with HFH with an amount based on 30% or less of their income, which is typically below market value of the house. The homeowners may also sign additional forgivable mortgages with other grantors and with HFH, bringing the total of all mortgages to the appraised value.

All mortgages are interest free and are to be repaid over a term of 15 to 30 years. For financial statement purposes the sale prices and mortgages receivable are recorded at a discounted amount calculated using discount rates ranging from 7.39% to 8.06%. The discount is amortized over the life of the mortgage using the interest rate method. At year end, the balances of mortgages receivable and unamortized discounts are as follows:

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.
Notes to Financial Statements
June 30, 2019

Balance of mortgages receivable, net	\$ 7,930,717
Unamortized discounts	<u>(3,623,323)</u>
Net mortgages receivable	4,307,394
Less current portion	<u>(452,595)</u>
Long term portion	<u><u>\$ 3,854,799</u></u>

Typically, the homeowner is liable to various agencies other than HFH to repay the difference between the sale price and the fair market value if the home is resold. This liability is established by using additional mortgages that are forgiven over varying terms between five and ten years. Provided that no default or prepayment occurs, these mortgages will not require any payments during their term and will be forgiven entirely by maturity.

Occasionally, one or more of these mortgages will be paid off early. When this occurs, the difference between the amount paid and the book value of the mortgage (which is net of all discounts and imputed interest expected to be recognized over the original mortgage term) is recorded as income.

All mortgage receivables are due from homeowners in Lake County, Illinois, are secured by the related real estate, and are considered fully collectible.

HFH outsources the administration of a portion of their mortgage portfolio to a third party servicing agent.

NOTE 6 – PROPERTY AND EQUIPMENT, NET

The following is a summary of property and equipment at year end:

Vehicles	\$ 158,644
Warehouse and construction equipment	60,604
Computer equipment	29,921
Office equipment	24,826
Leasehold improvements	<u>71,607</u>
Total property and equipment	345,602
Less accumulated depreciation	<u>(233,826)</u>
Net property and equipment	<u><u>\$ 111,776</u></u>

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.
Notes to Financial Statements
June 30, 2019

NOTE 7 – COMMITMENTS AND CONTINGENCIES

HFH is liable under an amended building lease dated April 25, 2018. The lease is for the ReStore facility, calls for annual increases of 3% on March 1st and expires May 31, 2023. Effective September 2018, the lease includes additional space. Amounts remaining under the lease are as follows:

Year ended June 30, 2020	\$ 199,836
2021	205,832
2022	212,006
2023	144,136

NOTE 8 – LINES OF CREDIT

A line of credit was obtained in an original amount of \$500,000. As of June 30, 2019, the balance due was \$0. No advances were made on the line during the year. Interest is at a variable rate which was 5.50% at June 30, 2019. The note matures on April 1, 2020.

A line of credit was obtained in an original amount of \$200,000. As of June 30, 2019, the balance due was \$0. No advances were made on the line during the year. Interest is at a variable rate which was 5.50% at June 30, 2019. The note matures on April 1, 2020.

There was no interest expense incurred on loans during the year.

NOTE 9 – HOMEOWNER ESCROW

HFH contracted with a third party escrow servicing agent for a portion of the portfolio. The agent collects monthly payments from the homeowners, escrows funds for homeowner insurance and real estate taxes and remits the remainder of the funds to HFH. The escrowed funds account balance and offsetting liability are not recorded in the financial statements. The homeowner escrowed balance, held by the agent, as of June 30, 2019 was \$184,982.

NOTE 10 – DONATED MATERIALS AND ASSETS

HFH receives donations of materials that are used in the construction of homes. These materials are valued by the donor and are included in income and costs of construction. Materials in the amount of \$6,063 and land in the amount of \$10,000 were received during the current year.

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.
Notes to Financial Statements
June 30, 2019

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions include those net assets where use by HFH has been donor-restricted by specified purpose of time limitations. Included in net assets with donor restrictions are net assets available for the purchase of land and construction of specific homes in Lake County, Illinois. As a home is completed and transferred, net assets with donor restricts to the construction of the transferred home are released from the restriction. In addition, a grant with time restrictions was satisfied during the current year. The amount released from restriction for the current year was \$635,377. The amount of net assets with donor restrictions at June 30, 2019 was \$1,766,308.

NOTE 12 – BENEFIT PLAN

HFH maintains a 403(b) plan, which is open to all employees. HFH made no discretionary contributions to the plan during the current year.

NOTE 13 – RELATED PARTY TRANSACTIONS

HFH is an affiliate of Habitat for Humanity International (HFHI). Although HFHI assists with information resources, training, publications and flows through contributions, HFH is primarily and directly responsible for its operations. HFH is required to tithe 10% of contributions not restricted for local use in Lake County, Illinois. These funds are used exclusively for construction of housing for needy families outside of the United States. The total tithe paid for the year ended June 30, 2019 was \$38,662.

NOTE 14 – CHANGE IN ACCOUNTING PRINCIPLE

Effective for the year ended June 30, 2019, HFH implemented Accounting Standards Update 2016-14. The objective is to improve the current asset classification requirements and the information presented in the financial statement and notes about HFH's liquidity, financial performance, and cash flows.

NOTE 15 – SUBSEQUENT EVENTS

HFH's management has performed an analysis of the activities and transactions subsequent to June 30, 2019 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2019. Management has performed their analysis through November 16, 2019, the date that the financial statements were available to be issued.