

HABITAT FOR HUMANITY OF
GREATER LOWELL, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2018 AND 2017

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
TABLE OF CONTENTS
JUNE 30, 2018

	<u>Page No.</u>
INDEPENDENT AUDITOR'S REPORT	2
FINANCIAL STATEMENTS	
Statements of Financial Position	3
Statement of Activities and Changes in Net Assets.....	4
Statement of Functional Expenses.....	5
Statements of Cash Flows.....	6
Notes to Financial Statements.....	7-14

CAIN, BOURRET, JARRY & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

Stephen A. Cain, CPA
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Dennis M. Bowes, CPA

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Greater Lowell, Inc.
Westford, Massachusetts

We have audited the accompanying financial statements of HABITAT FOR HUMANITY OF GREATER LOWELL, INC. (a Massachusetts not-for-profit corporation), which comprise the statements of financial position as of June 30, 2018 and 2017, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our 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 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 GREATER LOWELL, INC. as of June 30, 2018 and 2017, changes in its net assets and cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Cain, Bourret, Jarry & Associates, LLC

Dracut, Massachusetts
October 16, 2018

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2018 AND 2017

ASSETS

	2018	2017
CURRENT ASSETS		
Cash and cash equivalents	\$ 370,933	\$ 306,814
Grants receivable	70,000	52,500
Contributions receivable	186,462	-
Other receivables	10,819	21,084
Inventory - Restore	132,559	129,793
Prepaid expenses	-	4,254
House construction in process	765,308	395,204
Current portion of mortgages receivable	88,836	93,693
Total Current Assets	1,624,917	1,003,342
PROPERTY AND EQUIPMENT		
Leasehold improvements	28,119	28,119
Vehicles	67,281	45,721
Office equipment	13,011	13,011
Less: accumulated depreciation	(44,369)	(32,255)
Net Property and Equipment	64,042	54,596
OTHER ASSETS		
Mortgages receivable, net of current portion	1,842,387	1,835,400
Deposits	14,427	14,427
Total Other Assets	1,856,814	1,849,827
TOTAL ASSETS	\$ 3,545,773	\$ 2,907,765

LIABILITIES AND NET ASSETS

CURRENT LIABILITIES		
Line of credit	\$ 25,000	\$ -
Accounts payable	49,133	16,586
Accrued expenses	78,816	71,530
Prepaid deposits	4,000	2,000
Current portion of long-term debt	39,535	36,582
Total Current Liabilities	196,484	126,698
Long-Term Debt, net of current portion	67,577	89,396
TOTAL LIABILITIES	264,061	216,094
NET ASSETS		
Unrestricted	2,438,997	2,275,964
Temporarily restricted	842,715	415,707
TOTAL NET ASSETS	3,281,712	2,691,671
TOTAL LIABILITIES AND NET ASSETS	\$ 3,545,773	\$ 2,907,765

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2018

(With Summarized Financial Information for the Year Ended June 30, 2017)

	Unrestricted	Temporarily Restricted	Totals	
			2018	2017
SUPPORT AND REVENUE				
Support				
Contributions	\$ 198,344	\$ 269,696	\$ 468,040	\$ 347,902
Grants	116,185	246,951	363,135	107,474
Donated services and materials	-	144,573	144,573	172,035
Special events, net	105,580	19,379	124,959	100,530
Restore program	532,334	-	532,334	528,061
Net assets released from restrictions				
Satisfaction of program/donor restrictions	253,590	(253,590)	-	-
Total support	<u>1,206,032</u>	<u>427,008</u>	<u>1,633,041</u>	<u>1,256,002</u>
Revenue				
Sale of homes	330,000	-	330,000	100,000
Mortgage loan discount amortization	110,568	-	110,568	71,789
Interest income	1,150	-	1,150	255
Miscellaneous income	7,987	-	7,987	20,011
Total revenue	<u>449,705</u>	<u>-</u>	<u>449,705</u>	<u>192,055</u>
TOTAL SUPPORT AND REVENUE	<u>1,655,737</u>	<u>427,008</u>	<u>2,082,746</u>	<u>1,448,057</u>
FUNCTIONAL EXPENSES				
Program service expenses	1,256,611	-	1,256,611	1,182,717
Management and general expenses	75,680	-	75,680	59,078
Fundraising expenses	160,414	-	160,414	167,495
TOTAL FUNCTIONAL EXPENSES	<u>1,492,704</u>	<u>-</u>	<u>1,492,704</u>	<u>1,409,290</u>
CHANGES IN NET ASSETS	163,033	427,008	590,041	38,767
NET ASSETS, BEGINNING OF YEAR	<u>2,275,964</u>	<u>415,707</u>	<u>2,691,671</u>	<u>2,652,904</u>
NET ASSETS, END OF YEAR	<u>\$ 2,438,997</u>	<u>\$ 842,715</u>	<u>\$ 3,281,712</u>	<u>\$ 2,691,671</u>

See independent auditor's report and notes to financial statements

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2018
(With Summarized Financial Information for the Year Ended June 30, 2017)

	2018				Totals	2017
	Program Services		Supporting Services			All Services Combined
	Family Support, Education and Construction	ReStore	Management and General	Fundraising		
Salaries and wages	\$ 264,895	\$ 194,837	\$ 10,324	\$ 99,529	\$ 569,585	\$ 585,109
Payroll taxes and benefits	45,430	29,482	1,854	15,651	92,417	91,491
Advertising	-	1,834	-	-	1,834	10,533
Bad debt expense	-	-	-	-	-	68
Bank and credit card fees	-	9,883	73	3,813	13,769	14,392
Construction and building costs	284,872	-	-	-	284,872	277,179
Cost of goods sold	-	28,921	-	-	28,921	14,270
Depreciation	-	7,920	4,193	-	12,113	11,742
Discount on mortgages	93,470	-	-	-	93,470	19,457
Insurance	18,844	21,509	2,594	-	42,947	32,593
Interest	4,250	-	-	-	4,250	3,395
Office expenses	480	2,829	4,677	157	8,143	8,088
Other mission costs	1,174	-	-	-	1,174	1,682
Outside services	7,650	2,874	21,993	24,662	57,178	59,983
Membership dues	-	-	-	1,220	1,220	1,153
Miscellaneous	-	-	-	-	-	(5,229)
Postage and printing	-	-	646	15,219	15,865	12,462
Professional services	-	-	15,560	-	15,560	15,519
Rent and utilities	-	198,023	8,100	-	206,123	205,563
Repairs and maintenance	-	2,776	-	-	2,776	10,261
Telephone	1,388	-	2,689	-	4,077	3,561
Tithe to International	16,000	-	-	-	16,000	7,500
Travel and training	5,828	-	2,977	163	8,968	12,975
Vehicle expense	275	11,032	-	-	11,307	14,531
Volunteer appreciation	-	135	-	-	135	848
Direct fundraising expense	-	-	-	-	-	164
	<u>\$ 744,556</u>	<u>\$ 512,055</u>	<u>\$ 75,680</u>	<u>\$ 160,414</u>	<u>\$ 1,492,704</u>	<u>\$ 1,409,290</u>

See independent auditor's report and notes to financial statements.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2018 AND 2017

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash contributions received	\$ 478,305	\$ 477,876
Grants received	159,173	-
Cash paid to suppliers and employees	(1,143,731)	(865,047)
Interest received	1,150	255
Interest paid	(4,250)	(3,395)
Mortgage income and sale of homes	438,438	183,737
Restore program	17,513	(13,037)
Other operating receipts	132,946	111,788
Net cash provided (used) by operating activities	79,544	(107,823)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,000)	(2,950)
Purchase of short term investments	-	80,364
Net cash provided (used) by investing activities	(2,000)	77,414
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds / (payments) from line of credit	25,000	-
Principal proceeds / (payments) on long-term debt	(38,425)	(28,767)
Net cash provided (used) by financing activities	(13,425)	(28,767)
INCREASE (DECREASE) IN CASH	64,119	(59,176)
CASH, BEGINNING OF YEAR	306,814	365,990
CASH, END OF YEAR	\$ 370,933	\$ 306,814
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CHANGES IN NET ASSETS	\$ 590,041	\$ 38,767
ADJUSTMENTS TO RECONCILE INCREASE (DECREASE) IN NET ASSETS PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation	12,113	11,742
(Increase) decrease in grants receivable	(17,500)	22,500
(Increase) decrease in unconditional promises to give	(186,462)	-
(Increase) decrease in other receivables	10,265	(8,753)
(Increase) decrease in inventory - Restore	(2,766)	(8,671)
(Increase) decrease in prepaid expenses	4,254	(2,081)
(Increase) decrease in inventory - construction costs	(370,104)	(115,651)
(Increase) decrease in mortgages receivable	(2,130)	11,948
Increase (decrease) in accounts payable	32,547	(25,194)
Increase (decrease) in accrued expenses	7,286	(33,430)
Increase (decrease) in prepaid deposits	2,000	1,000
Total adjustments	(510,497)	(146,590)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ 79,544	\$ (107,823)

NONCASH INVESTING AND FINANCING ITEMS

In-kind donated services and materials received were \$144,573 and \$172,035 for 2018 and 2017, respectively

A new truck was purchased on December 22, 2017 in the amount of \$21,560. A deposit of \$2,000 was paid in cash with the remainder of the purchase price financed through a credit union loan.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

Note 1. ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Lowell, Inc. (the Organization) is a not-for-profit 501(c)(3) organization that works to strengthen families and communities through affordable homeownership opportunities. The Organization works in partnership with corporations, like-minded community groups, faith-based organizations, and individual volunteers to develop communities with people in need by building and renovating simple, decent, energy efficient, affordable homes. The Organization's goal is to eliminate poverty housing and homelessness in the greater Lowell area and to stir the hearts and minds of others to take action on this issue. The Organization receives donations, grants and contributions from individual and corporate donors that enable it to fulfill its mission. The Organization is also affiliated with Habitat for Humanity International, Inc., a worldwide organization with more than 1,400 local affiliates in the United States and more than 70 national organizations around the world.

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

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. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. If donor-imposed restrictions are met in the same period as the gift is received the amount is reported as unrestricted revenues. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

- Unrestricted net assets – The Organization reports assets whose use is not restricted by donors as unrestricted net assets. Contributions are available for unrestricted use unless specifically restricted by the donor.
- Temporarily restricted net assets – The Organization reports gifts of cash and other assets as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities and Changes in Net Assets as net assets released from restrictions. Contributions restricted for capital improvements are released to unrestricted revenue at the time funds are expended for the specified improvement.
- Permanently restricted net assets – Permanently restricted net assets are those which are subject to the restrictions of gift instruments requiring that the principal be invested in perpetuity and only the income can be utilized for purposes specified by the donor.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. There were no cash equivalents for the years ended June 30, 2018 and 2017.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Receivables

Receivables, other than mortgages, are stated at the amount management expects to collect on outstanding balances. Management provides for uncollectible amounts through a charge to expense, based on its assessment of the current status of individual accounts. All receivables were deemed to be collectible at June 30, 2018 and 2017.

Contributions Receivable

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using an appropriate discount rate. Future amortization of the discount will be included in contributions revenue. Management closely monitors outstanding balances and writes off any balances deemed uncollectible.

Grant Receivables

Grants receivable are reflected net of an allowance for uncollectible amounts based on management's judgment and analysis of the creditworthiness of the donors, past payment experience, and other relevant factors. At June 30, 2018 and 2017, the balance of grants receivables is \$70,000 and \$52,500, respectively.

Mortgage Receivables

The Organization transfers rehabilitated and newly constructed homes based on prices pre-determined by area, construction or rehabilitation costs and the income status of the homeowner. This pre-determined price is then discounted in accordance with Internal Revenue Code Section 1288. The discounted amount, which represents the underlying mortgage receivable, is recorded at the original transfer price less the calculated discount. Mortgage receivables that arose prior to January 1, 2003 were discounted at a rate of 8.0%. Effective January 1, 2003 the Organization revised its policy by requiring mortgages be discounted using the applicable long-term Federal Funds rate in effect as of the date of transfer to the homeowner. The mortgages have an original maturity of 20 to 40 years and arise in connection with the Organization's homebuilding initiatives in Greater Lowell, Massachusetts. These mortgages are secured by the underlying real estate that is located primarily in the Greater Lowell, Massachusetts area.

The underlying real estate is transferred to the homeowner at below the then fair market value. The fair value of the homes is in excess of the related mortgage note balances, and due to the secured creditor status of the Organization, all mortgage balances are fully collectible. The Organization believes that no allowance for doubtful accounts is necessary.

Inventory

Inventory consists of donated building supplies and other home improvement items to be sold at the Organization's ReStore. Purchased inventory is valued at cost. Donated inventory is valued at its estimated fair value based on its expected selling price. At June 30, 2018 and 2017 inventory was valued at \$132,559 and \$129,793 respectively.

House Construction in Process

Construction costs relate to the expenditures for new construction, remodeling and rehabbing of residential property. These costs may represent donated buildings, land, building materials and skilled volunteer services. Donated inventory is recorded at the fair market value on the date of receipt and such items are expensed when used or sold based on the specific identification method. Costs incurred in conjunction with construction are expensed when the home is sold.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment purchased by the Organization with unrestricted funds is recorded at cost. Donated property and equipment is recorded at fair value at the date of the gift. Depreciation is provided beginning when the asset is placed in service using the straight-line method over the estimated useful life of the asset, ranging from 5 to 15 years. Expenditures for renewals and betterments are capitalized. ReStore costs incurred prior to the opening of the store were capitalized and are being depreciated over 15 years. When assets are sold or are otherwise disposed of, the appropriate cost and related accumulated depreciation amounts are removed from the accounts and any gain or loss is included in the change in net assets for the period. Depreciation expense for the years ended June 30, 2018 and 2017 was \$12,113 and \$11,742, respectively, of which \$7,920 and \$8,377 was related to the ReStore.

Compensated Absences

Employees of the Organization are entitled to paid vacation, sick days, and other personal days off, depending on job classification, length of service, and other factors. These entitlements accrue during the calendar year but must be used by the end of the calendar year or the employee forfeits the benefit as explained in the employee handbook. For the years ended June 30, 2018 and 2017, the Organization accrued a liability for compensated absences in the amount of \$21,212 and \$16,215, respectively.

Revenues and Support Recognition

Transfer to Homeowners

Mortgage income includes the annual amortization of the discount for the present time value of money on the primary mortgage and recognition for the release of the contingent mortgage (Note 5) upon the premature sale by a homeowner. For the years ended June 30, 2018 and 2017 mortgage income was \$110,568 and \$71,789, respectively.

Contributions and Contributed Services

Contributions, including unconditional promises to give, are recognized as revenue in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risk involved.

Contributions received with donor-imposed restrictions that will lapse are reported as temporarily restricted revenues when they are received. A reclassification to unrestricted net assets is made to reflect the expiration of such restrictions in the year the restriction is met. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as unrestricted.

Contributions of property and equipment without donor stipulations concerning the use of such long-lived assets are reported as unrestricted revenues. Contributions of cash or other assets to be used to acquire property and equipment with donor stipulations are reported as temporarily restricted revenues, and the restrictions are considered to be released at the time of acquisition of such long-lived assets.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Support Recognition (Continued)

Contributions of services are reported as temporarily restricted revenues and expenses at the fair value of the services received only if the services create or enhance a non-financial asset or would typically need to be purchased by the Organization if they had not been provided by individuals with those skills. A substantial number of volunteers have made significant contributions of their time to the Organization's program of building and rehabbing houses, and other supporting services. The value of this contributed time is not reflected in these financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, such as plumbing, HVAC and electrical are provided by individuals possessing those skills and/or licenses that would otherwise need to be purchased if not provided by donation are recognized as temporarily restricted revenue. Contributions of materials to be used in program operations are reported as revenues and expenses of the temporarily restricted net asset category at the time the materials are received. Contributed services and materials for the years ended June 30, 2018 and 2017 totaled approximately \$144,573 and \$172,035, respectively.

Fundraising and Special Events

Special event revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special event contributions and fees are recognized as income when received. The majority of special event revenue is derived from the Annual Gala.

ReStore Sales

Retail store sales represent sales of building materials, furniture, appliances, and housewares donated to the Organization. Retail store revenues are recognized when the related goods are sold. The Organization records sales taxes collected on these sales in ReStore Revenue.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expense for the years ended June 30, 2018 and 2017 is \$1,834 and \$10,533, respectively, and relates entirely to the ReStore Program.

Income Taxes and Uncertain Tax Positions

The Organization is exempt from federal and state income taxation under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code and Section 830 CMR 63.38T.1 of Massachusetts General Laws. Since the Organization is exempt from federal and state income tax liability, no provision is made for current or deferred income tax expenses. The Organization is not a private foundation. Only unrelated business income, as defined by Section 512(a)(1) of the Code, is subject to federal income tax. The Organization accounts for income taxes in accordance with income tax accounting guidance in FASB ASC Topic 740, *Income Taxes*. Management is not aware of any transactions that would negatively impact the Organization's tax-exempt status.

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires the Organization to report information regarding its exposure to various tax positions taken by the Organization. The Organization has determined whether any tax positions have met the recognition threshold and have measured the Organization's exposure to those tax positions. Management believes that the Organization has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Any interest or penalties assessed to the Organization are recorded in operating expenses. No interest or penalties from any tax authorities were recorded in the accompanying financial statements.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes and Uncertain Tax Positions (Continued)

The Organization's federal exempt tax returns and State of Massachusetts reports for the years ended June 30, 2015 through June 30, 2018 (open years) are subject to examination by the Internal Revenue Service and Massachusetts Attorney General's Office.

Fair Value of Financial Instruments

Generally accepted accounting principles establish a framework for measuring fair value.

Fair value is the amount that would be received to sell an asset, or paid to settle a liability, in an orderly transaction between market participants at the measurement date. Accounting principles require the use of observable market data, when available, in making fair value measurements. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

The Organization's financial instruments, none of which are held for trading purposes, consist primarily of cash, accounts payable and accrued expenses. The Organization estimates the carrying amount of these financial instruments approximate their fair value recorded in the accompanying financial statements due to their short-term nature.

The carrying amount of the Organization's mortgages receivable and long-term debt generally approximates its fair value at June 30, 2018 and 2017, as the instruments current interest rate approximates market rates.

Functional Allocation of Expenses

The costs of providing various programs and other activities of the Organization have been summarized on a functional basis in the Statements of Activities and Statement of Functional Expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services directly or on the basis of time records and utilization estimates made by the Organization's management. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Note 3. CONCENTRATION OF CREDIT RISK

Habitat for Humanity of Greater Lowell, Inc. maintains its cash balances in bank accounts at high quality credit financial institutions. The balances, at times may exceed federally insured limits (FDIC). Pursuant to Section 343 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act), the standard maximum insurance amount was permanently raised to \$250,000. At June 30, 2018 and 2017 Habitat did not exceed the FDIC insured limit. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk. The Organization monitors the credit-worthiness of the financial institutions in which it deposits money.

The Organization's concentration of credit risk with respect to mortgages receivable depends on its partner families ability to repay, which may vary with economic conditions within this geographic area.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

Note 4. MORTGAGES RECEIVABLE

Transfers to homeowners represent the sale of houses built by Habitat in exchange for interest free mortgages. As discussed in Note 2 these mortgages are payable over 20 – 40 years and discounted for the present time value of money. Mortgage payments received after 15 days are considered late and subject to the Organization's delinquency policy. The Organization has a liberal policy of working with homeowners to ensure that accounts are brought up to date and all remedies exhausted before any legal action will commence. As of June 30, 2018 Habitat had 29 loans outstanding with a gross value of \$2,584,877 and a discounted value of \$1,931,223. As of June 30, 2017 Habitat had 31 loans outstanding with a gross value of \$2,586,050 and a discounted value of \$1,929,093.

The annual maturities stated at their discounted present value to be received over the next five years and in the aggregate are as follows:

<u>Year Ended</u>	<u>Amount</u>
2019	\$ 88,836
2020	90,447
2021	95,187
2022	98,344
2023	98,795
Thereafter	<u>1,459,614</u>
Total	<u>\$ 1,931,223</u>

Note 5. CONTINGENT MORTGAGES RECEIVABLE

Homeowners who purchase housing through the Organization's program are subject to additional payments should the house be sold before the mortgage has been paid in full. The remaining payments on the original mortgage would be due at the closing and they would be subject to a second predetermined (contingent) mortgage. Contingent mortgage receivables are not reported in the accompanying financial statements, and their outstanding balances at June 30, 2018 and 2017 totaled \$1,171,651 and \$1,519,885, respectively. At present, management does not believe that any of the outstanding contingent mortgages will be realized.

Note 6. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2018 consist of the following. There were no contributions receivable as of June 30, 2017.

	<u>2018</u>
Gross unconditional promises to give	\$ 270,000
Less: unamortized discount	<u>83,538</u>
Net unconditional promises to give	<u>\$ 186,462</u>
Amounts due in:	
Less than one year	\$ 30,000
One to five years	107,436
Five to ten years	<u>49,026</u>
	<u>\$ 186,462</u>

See independent auditor's report.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

Note 7. LINE OF CREDIT

The Organization has an available line of credit of \$150,000 with Eastern Bank. Funds assigned to the Westford Federal Home Loan Bank (FHLB) Project total \$60,000 with the remaining balance of the line of credit attributed to working capital. The line of credit bears interest at 7% per annum. As of June 30, 2018, the outstanding balance is \$25,000 and the interest expense amounted to approximately \$123.

Note 8. LONG-TERM DEBT

At June 30, 2018 long-term debt consisted of a 3.80% promissory note in the original amount of \$143,000 payable to Habitat for Humanity International, Inc. in equal quarterly installments of approximately \$5,877 including interest through December 2020. The loan is secured by the four mortgage receivables originating in FY10 held by Habitat for Humanity of Greater Lowell, Inc. The outstanding balance as of June 30, 2018 is \$55,815.

The Organization obtained a note payable in the amount of \$19,560 for a vehicle, payable in monthly installments of \$367 including interest at 4.75% per annum. The note's original maturity date is January 2023. The outstanding balance as of June 30, 2018 is \$18,092.

The Organization also has eight federal SHOP grants in various amounts with a no interest loan provision granted by HUD but administered and applied for through Habitat for Humanity International, Inc. The grant monies are to be used for the development and improvement of the home infrastructure. The Organization submits eligible expenses to develop decent, safe and sanitary non-luxury housing on a cost-reimbursement basis, however, one quarter (25%) of the money granted must be repaid as a non-interest bearing loan over a 48 month period. The outstanding balances of the eight federal SHOP grants as of June 30, 2018 are \$33,205.

	2018	2017
Current portion	\$ 39,535	\$ 36,582
Long-term debt, net of current portion	67,577	89,396
Total	\$ 107,112	\$ 125,978

Annual maturities of long-term debt over the next five years are as follows:

Year Ended	Amount
2019	\$ 39,535
2020	37,737
2021	23,124
2022	4,195
2023	2,520
Total	\$ 107,112

Note 9. RESTORE PROGRAM

The Organization established its first ReStore in 2012. The ReStore is set-up to receive donated goods such as building materials and household items that would otherwise be destined for landfills. The Organization then stores and sells these goods to the public at discount prices. This both raises money for the Organization's programs and makes discounted materials available for the public. For the year ended June 30, 2018 the ReStore Program generated \$532,334 of revenues with associated costs of \$512,055. This resulted in a net gain of \$20,279. For the year ended June 30, 2017 the ReStore Program generated \$528,061 of revenues with associated costs of \$532,427. This resulted in a net loss of \$4,366 on ReStore activities.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2018 AND 2017

Note 10. RECONCILIATION OF SALES OF HOMES AND TRANSFERS TO HOMEOWNERS

In accordance with the accounting policy as established by Habitat International the local affiliate records the sales of homes at the net amount of the mortgage receivable. The affiliate has included the below schedule to properly disclose the sales price pursuant to the HUD Settlement statement with the net amount recorded in the accompanying financial statements at year end.

Sales Price per HUD Settlement Statements	\$ 628,700
Less: Contingent Mortgage (see Note 5)	<u>(298,700)</u>
Total Home Sales	<u>\$ 330,000</u>

Note 11. CONTRIBUTION TO HABITAT FOR HUMANITY INTERNATIONAL, INC.

Habitat for Humanity International, Inc. has a suggested 10% tithing based on internal calculations for unrestricted funds, however, there is no penalty for tithing less than this amount. This amount is used for Habitat for Humanity International's, worldwide housing programs. As a Board, the Organization has voted to tithe International \$25,000 per year. However, for the years ended June 30, 2018 and 2017 actual contributions to Habitat for Humanity International, Inc. were \$16,000 and \$7,500, respectively.

Note 12. OPERATING LEASES

Effective November 1, 2010, the Organization is a tenant-at-will for office space located at 124 Main St, Westford, Massachusetts. Current monthly payments are \$800 plus certain utilities. The Organization sublets office space to a related party of the Executive Director for \$300 per month as a tenant-at-will.

Effective May 28, 2015, the Organization entered into a ten (10) year lease agreement for its Restore space located at 440 Middlesex Road, Tyngsboro, Massachusetts. Current monthly payments are \$7,000.

Note 13. RELATED PARTY TRANSACTIONS

The Organization uses a law firm for legal services related to house closings and foreclosures that employs a member of the Board of Trustees. For the years ended June 30, 2018 and 2017 legal fees paid to this firm totaled \$3,498 and \$2,121 respectively. Management believes these transactions are not substantially different than if conducted with unrelated parties.

Note 14. SUBSEQUENT EVENTS

Management has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended June 30, 2018 through October 16, 2018, the date the financial statements were first available to be issued.

The ReStore had been relocated to Tyngsboro, Massachusetts in November 2015. Since the relocation, the property had been sold to a new landlord. The new landlord has different plans for the ReStore's space and has asked the Organization to break the lease. The Organization has decided to vacate the premises by November 2018 due to rising CAM charges and high utility costs. As of this date, the new location is planned to be in North Billerica but requires a zoning change which will be voted by the town on October 17, 2018. In the meantime, the Organization has decreased the hours of the store, cut down on staff and implemented a new markdown policy. This has increased the ReStore profits for FY2018, however, the occupancy costs are still a concern going forward. The new location will cut occupancy costs by close to \$50,000 and is in a location which is very visible from the highway. Habitat is looking forward to being back in Billerica and regaining their old customer base. The store will open on January 2, 2019.