

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.

FINANCIAL STATEMENTS AND  
INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2016

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.  
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# CAIN, BOURRET, JARRY & ASSOCIATES, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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Stephen A. Cain, CPA  
Steven R. Bourret, CPA

David A. Jarry, CPA, MST  
Dennis M. Bowes, CPA

## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors  
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 statement of financial position as of June 30, 2016, 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.

### 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, 2016, changes in its net assets and cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Report on Summarized Comparative Information

We have previously audited HABITAT FOR HUMANITY OF GREATER LOWELL, INC.'s 2015 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 2, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Cain, Bourret, Jarry & Associates, LLC*

Dracut, Massachusetts  
October 18, 2016

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2016

(With Summarized Financial Information for the Year Ended June 30, 2015)

ASSETS

	<u>2016</u>	<u>2015</u>
<b>CURRENT ASSETS</b>		
Cash and cash equivalents	\$ 365,990	\$ 499,503
Short term investments	80,364	28,000
Contributions and grants receivable	75,000	115,750
Other receivable	12,331	20,385
Inventory - Restore	121,122	134,221
Prepaid expenses	2,173	4,206
Construction costs	279,554	782,422
Current portion of mortgages receivable	<u>86,260</u>	<u>72,409</u>
<b>Total Current Assets</b>	<u>1,022,794</u>	<u>1,656,896</u>
 <b>PROPERTY AND EQUIPMENT</b>		
Leasehold improvements	28,119	135,360
Capitalized Restore costs	-	81,864
Vehicles	42,771	16,150
Office equipment	13,011	13,011
Less: accumulated depreciation	<u>(20,514)</u>	<u>(64,469)</u>
<b>Net Equipment</b>	<u>63,387</u>	<u>181,916</u>
 <b>OTHER ASSETS</b>		
Mortgages receivable, net of current portion	1,854,781	1,517,478
Deposits	<u>14,427</u>	<u>14,427</u>
<b>Total Other Assets</b>	<u>1,869,208</u>	<u>1,531,905</u>
 <b>TOTAL ASSETS</b>	<u>\$ 2,955,389</u>	<u>\$ 3,370,717</u>
 <b>LIABILITIES AND NET ASSETS</b>		
 <b>CURRENT LIABILITIES</b>		
Line of credit	\$ -	\$ 56,000
Accounts payable	41,780	56,195
Accrued expenses	104,960	62,126
Prepaid deposits	1,000	9,000
Current portion of long-term debt	<u>29,635</u>	<u>24,020</u>
<b>Total Current Liabilities</b>	177,375	207,341
 Long-Term Debt, net of current	<u>125,110</u>	<u>147,711</u>
 <b>TOTAL LIABILITIES</b>	<u>302,485</u>	<u>355,052</u>
 <b>NET ASSETS</b>		
Unrestricted	2,245,502	2,182,693
Temporarily restricted	<u>407,402</u>	<u>832,972</u>
 <b>TOTAL NET ASSETS</b>	<u>2,652,904</u>	<u>3,015,665</u>
 <b>TOTAL LIABILITIES AND NET ASSETS</b>	<u>\$ 2,955,389</u>	<u>\$ 3,370,717</u>

See independent auditor's report and notes to financial statements

**HABITAT FOR HUMANITY OF GREATER LOWELL, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**FOR THE YEAR ENDED JUNE 30, 2016**

(With Summarized Financial Information for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Totals	
			2016	2015
<b>NET ASSETS</b>				
<b>Revenue and Support</b>				
Sale of homes	\$ -	\$ 580,000	\$ 580,000	\$ 247,900
Contributions and grants	134,212	508,482	642,694	934,017
Donated services and materials	-	398,645	398,645	328,445
Special events, net	117,351	6,739	124,090	106,630
Restore program	480,077	-	480,077	569,346
Mortgage income	63,002	-	63,002	59,095
Miscellaneous income	8,184	-	8,184	8,336
Interest income	434	-	434	74
Net assets released from restrictions	1,919,436	(1,919,436)	-	-
<b>TOTAL SUPPORT, REVENUES AND RELEASES</b>	<u>2,722,696</u>	<u>(425,570)</u>	<u>2,297,126</u>	<u>2,253,843</u>
<b>FUNCTIONAL EXPENSES</b>				
Program service expenses	2,441,744	-	2,441,744	1,439,582
Management and general expenses	68,617	-	68,617	70,549
Fundraising expenses	149,526	-	149,526	109,438
<b>TOTAL FUNCTIONAL EXPENSES</b>	<u>2,659,887</u>	<u>-</u>	<u>2,659,887</u>	<u>1,619,569</u>
<b>INCREASE (DECREASE) IN NET ASSETS</b>	62,809	(425,570)	(362,761)	634,274
<b>NET ASSETS, BEGINNING OF YEAR</b>	<u>2,182,693</u>	<u>832,972</u>	<u>3,015,665</u>	<u>2,381,391</u>
<b>NET ASSETS, END OF YEAR</b>	<u>\$ 2,245,502</u>	<u>\$ 407,402</u>	<u>\$ 2,652,904</u>	<u>\$ 3,015,665</u>

**HABITAT FOR HUMANITY OF GREATER LOWELL, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
**(With Summarized Financial Information for the Year Ended June 30, 2015)**

	2016				Total	2015 All Funds Combined
	Program Services		Supporting Services			
	Family Support, Education and Construction	ReStore	Management and General	Fundraising		
Salaries and wages	\$ 252,893	\$ 228,602	\$ 10,232	\$ 90,056	\$ 581,783	\$ 569,073
Payroll taxes and benefits	40,496	41,381	2,106	12,901	96,884	99,816
Advertising	-	10,877	-	-	10,877	5,470
Bad debt expense	4,400	-	-	-	4,400	-
Bank and credit card fees	-	8,495	28	3,381	11,904	9,934
Construction and building costs	1,243,831	-	-	-	1,243,831	472,849
Depreciation	-	4,827	5,329	-	10,156	19,662
Discount on mortgages	143,409	-	-	-	143,409	66,425
Insurance	27,942	4,589	-	-	32,531	27,338
Interest	6,502	-	-	-	6,502	5,293
Office expenses	245	5,598	4,388	713	10,944	10,296
Other mission costs	1,337	-	-	-	1,337	11,960
Outside services	6,450	11,398	16,610	32,478	66,936	28,677
Membership dues	-	-	-	293	293	2,539
Miscellaneous	-	8,014	-	-	8,014	187
Postage and printing	-	183	669	8,251	9,103	10,423
Professional services	-	-	15,547	-	15,547	10,084
Property taxes	-	6,863	-	-	6,863	27,591
Rent and utilities	-	143,208	6,820	-	150,028	158,181
Repairs and maintenance	-	25,541	-	-	25,541	24,551
Telephone	1,384	-	3,168	-	4,552	2,925
Tithe to International	25,000	-	-	-	25,000	25,000
Travel and training	3,769	333	3,720	1,453	9,275	20,376
Vehicle expense	-	11,895	-	-	11,895	9,526
Volunteer appreciation	-	2,233	-	-	2,233	1,393
Direct fundraising expense	-	487	-	-	487	-
Loss/(gain) on disposal of assets	-	169,562	-	-	169,562	-
	<u>\$ 1,757,658</u>	<u>\$ 684,086</u>	<u>\$ 68,617</u>	<u>\$ 149,526</u>	<u>\$ 2,659,887</u>	<u>\$ 1,619,569</u>

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

**HABITAT FOR HUMANITY OF GREATER LOWELL, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2016**  
(With Summarized Financial Information for the Year ended June 30, 2015)

	2016	2015
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Cash contributions and grants received	\$ 683,444	\$ 914,183
Cash paid to suppliers and employees	(1,036,378)	(1,000,342)
Interest received	434	74
Interest paid	(6,502)	(5,293)
Mortgage income and sale of homes	291,848	141,972
Restore program	(20,148)	18,866
Other operating receipts	140,328	114,966
<b>Net cash provided (used) by operating activities</b>	<b>53,026</b>	<b>184,426</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Purchase of property and equipment	(61,189)	-
Purchase of short term investments	(52,364)	(28,000)
<b>Net cash provided (used) by investing activities</b>	<b>(113,553)</b>	<b>(28,000)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Proceeds / (payments) from line of credit	(56,000)	56,000
Cash released from collateral (collateralized) for line of credit	-	36,215
Principal proceeds / (payments) for long-term debt	(16,986)	14,494
<b>Net cash provided (used) by financing activities</b>	<b>(72,986)</b>	<b>106,709</b>
<b>INCREASE (DECREASE) IN CASH</b>	(133,513)	263,135
<b>CASH, BEGINNING OF YEAR</b>	499,503	236,368
<b>CASH, END OF YEAR</b>	<b>\$ 365,990</b>	<b>\$ 499,503</b>
<b>RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
<b>INCREASE (DECREASE) IN NET ASSETS</b>	<b>\$ (362,761)</b>	<b>\$ 634,274</b>
<b>ADJUSTMENTS TO RECONCILE INCREASE (DECREASE) IN NET ASSETS PROVIDED (USED) BY OPERATING ACTIVITIES</b>		
Depreciation	10,156	19,662
Loss/(gain) on sale of assets	169,562	-
(Increase) decrease in contributions and grants receivable	40,750	(19,834)
(Increase) decrease in other receivables	8,054	(3,205)
(Increase) decrease in inventory - Restore	13,099	(13,452)
(Increase) decrease in prepaid expenses	2,033	(163)
(Increase) decrease in inventory - construction costs	502,868	(344,102)
(Increase) decrease in mortgages receivable	(351,154)	(112,423)
(Increase) decrease in deposits	-	(7,000)
Increase (decrease) in accounts payable	(14,415)	33,380
Increase (decrease) in accrued expenses	42,834	(11,711)
Increase (decrease) in prepaid deposits	(8,000)	9,000
<b>Total adjustments</b>	<b>415,787</b>	<b>(449,848)</b>
<b>NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES</b>	<b>\$ 53,026</b>	<b>\$ 184,426</b>
<b>NONCASH INVESTING AND FINANCING ITEMS</b>		

In-kind donated services and materials received were \$398,645 and \$328,445 for 2016 and 2015, respectively.

See independent auditor's report and notes to financial statements



**HABITAT FOR HUMANITY OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2016**

**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. The combined organizations have helped to build or repair more than 900,000 houses and serve more than 5 million people worldwide.

**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 or investment income 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 year ended June 30, 2016.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Investments

Investments consist mainly of certificates of deposit and short-term investments and are reported at cost in the accompanying financial statements. Investment income, which consists of interest and dividend income earned, realized gains or losses and unrealized appreciation (depreciation), if any, on those investments is included in the statement of activities and changes in net assets. Investment income reported as operating revenue consists of interest and dividend income on investments and any gains approved by the Board of Directors for use in operations. All other realized and unrealized gains or losses are reported as non-operating revenue. For the year ended June 30, 2016, short term investments were \$80,364.

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, 2016 as the instruments current interest rate approximates market rates.

Receivables

Receivables, other than mortgages, are stated at the amount management expects to collect from 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 are deemed to be collectible at June 30, 2016.

Mortgage Receivables

The Organization transfers rehabilitated and newly constructed homes at prices pre-determined by area, cost of rehab 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.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Contributions and Grant Receivables

Contributions and grant receivables that are expected to be collected in future years are recorded at the present value of the estimated future cash flows. Contributions 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, 2016, the balance of contribution and grant receivables is \$75,000.

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, 2016 inventory was valued at \$121,122.

Construction Costs

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 based on the specific identification method. Costs incurred in conjunction with construction are expensed when the home is sold.

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. Depreciation expense for the year ended June 30, 2016 was \$10,156, of which \$4,827 was related to the ReStore.

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 year ended June 30, 2016 mortgage income was \$63,002.

**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.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.  
NOTES TO FINANCIAL STATEMENTS (CONTINUED)  
JUNE 30, 2016

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenues and Support Recognition (Continued)

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.

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 year ended June 30, 2016 totaled approximately \$398,645.

Fundraising and Special Events

General fundraising costs are recorded as an expense when incurred and the related revenue is included as contributions.

Revenue from special events is reported net of direct costs.

Advertising

The Organization expenses advertising costs as they are incurred. Advertising expense for the year ended June 30, 2016 is \$10,877 and relates entirely to the ReStore Program.

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 year ended June 30, 2016, the Organization accrued a liability for compensated absences in the amount of \$13,906.

Functional Allocation of Expenses

The costs of providing programs and other activities of the Organization have been summarized on a functional basis in the Statements of Activities and Net Assets. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Income Taxes and Uncertain Tax Positions

Habitat for Humanity of Greater Lowell, Inc. is exempt from federal income taxation under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended, pursuant to a group exemption letter received from the Internal Revenue Service. 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*.

See independent auditor's report.

**HABITAT FOR HUMANITY OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Income Taxes and Uncertain Tax Positions (Continued)**

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. Federal and state tax authorities generally have the right to examine and audit the previous three years of tax returns filed. 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.

The Organization's federal exempt tax returns for the year ended June 30, 2013 through June 30, 2016 (open years) are subject to examination by the federal and state taxing authorities.

**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, 2016 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.

**Note 4. MORTGAGES RECEIVABLE**

Transfers to homeowners represent the sale of houses built by Habitat in exchange for mortgage notes with no interest. 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. At June 30, 2016 Habitat had 32 loans outstanding with a gross value of \$2,648,756 and a discounted value of \$1,941,222.

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

<u>Year Ended</u>	<u>Amount</u>
2017	\$ 86,260
2018	89,017
2019	91,105
2020	91,386
2021	96,393
Thereafter	<u>1,487,061</u>
Total	<u>\$ 1,941,222</u>

See independent auditor's report.

**HABITAT FOR HUMANITY OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**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 full term of the mortgage. 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, 2016 totaled \$1,482,157. At present, management does not believe that any of the outstanding contingent mortgages will be realized.

**Note 6. LONG-TERM DEBT**

At June 30, 2016 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 \$5,877.31 including interest through December 2020, secured by the four mortgage receivables originating in FY10 held by Habitat for Humanity of Greater Lowell, Inc. 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 grants are awarded for the infrastructure of home building based on cost reimbursement, however, one quarter of the money granted must be paid back over 48 month terms.

Current portion	\$ 29,635
Long-term debt, net of current portion	<u>125,110</u>
Total	<u>\$ 154,745</u>

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

<u>Year Ended</u>	<u>Amount</u>
2017	\$ 29,636
2018	35,195
2019	34,163
2020	32,212
2021	<u>23,539</u>
Total	<u>\$ 154,745</u>

**Note 7. RESTORE PROGRAM**

The Organization established its first ReStore in the year ended June 30, 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, 2016 the ReStore Program generated \$480,077 of revenues with associated costs of \$682,886. This resulted in a net loss of \$202,809 on ReStore activities. A portion of the net loss in fiscal year 2016 consisted of a one-time loss on disposal of \$170,187 for leasehold improvements from the Billerica ReStore. The revenue total includes \$2,406 of donated goods and materials.

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**HABITAT FOR HUMANITY OF GREATER LOWELL, INC.**  
**NOTES TO FINANCIAL STATEMENTS (CONTINUED)**  
**JUNE 30, 2016**

**Note 8. 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	\$ 1,233,600
Less: Contingent Mortgage (see Note 5)	<u>( 577,904)</u>
Adjusted Sales Price	655,696
Other Adjustments Required:	
Settlement Costs	( 4,194)
Homeowner's Sweat Equity	( 9,790)
Downpayment	( 4,000)
Miscellaneous costs paid at closing	( 1,712)
Federal Home Loan Bank (FHLB) Costs	<u>( 56,000)</u>
Total Home Sales	<u>\$ 580,000</u>

**Note 9. 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. For the year ended June 30, 2016 contributions to Habitat for Humanity International, Inc. were \$25,000.

**Note 10. 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 space located at 440 Middlesex Road, Tyngsboro, Massachusetts. Current monthly payments are \$7,000.

**Note 11. 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 year ended June 30, 2016 legal fees paid to this firm totaled \$1,508. Management believes these transactions are not substantially different than if conducted with unrelated parties.

**Note 12. RESTATEMENT OF PRIOR YEAR**

The financial statements for the year ended June 30, 2015 have been adjusted to conform to the 2016 financial statement presentation. The Organization is now presenting the sales of homes and the mortgage discount expense separately. In prior years the sales of homes was recorded net of the mortgage discount expense. There was no change to the prior year net income and fund balances.

**Note 13. SUBSEQUENT EVENTS**

Management has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended June 30, 2016 through October 18, 2016, the date the financial statements were first available to be issued. There were no subsequent events that require recognition or disclosure in the financial statements.

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