

HABITAT FOR HUMANITY OF
GREATER LOWELL, INC.

FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT

YEARS ENDED JUNE 30, 2017 AND 2016

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

CERTIFIED PUBLIC ACCOUNTANTS

Stephen A. Cain, CPA
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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, 2017 and 2016, 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, 2017 and 2016, 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 18, 2017

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2017 AND 2016

ASSETS

	2017	2016
CURRENT ASSETS		
Cash and cash equivalents	\$ 306,814	\$ 365,990
Short term investments	-	80,364
Contributions and grants receivable	52,500	75,000
Other receivables	21,084	12,331
Inventory - Restore	129,793	121,122
Prepaid expenses	4,254	2,173
House construction in process	395,204	279,554
Current portion of mortgages receivable	93,693	86,260
Total Current Assets	1,003,342	1,022,794
PROPERTY AND EQUIPMENT		
Leasehold improvements	28,119	28,119
Vehicles	45,721	42,771
Office equipment	13,011	13,011
Less: accumulated depreciation	(32,255)	(20,514)
Net Property and Equipment	54,596	63,387
OTHER ASSETS		
Mortgages receivable, net of current portion	1,835,400	1,854,781
Deposits	14,427	14,427
Total Other Assets	1,849,827	1,869,208
TOTAL ASSETS	\$ 2,907,765	\$ 2,955,389
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts payable	\$ 16,586	\$ 41,780
Accrued expenses	71,530	104,960
Prepaid deposits	2,000	1,000
Current portion of long-term debt	36,582	29,635
Total Current Liabilities	126,698	177,375
Long-Term Debt, net of current	89,396	125,110
TOTAL LIABILITIES	216,094	302,485
NET ASSETS		
Unrestricted	2,275,964	2,245,502
Temporarily restricted	415,707	407,402
TOTAL NET ASSETS	2,691,671	2,652,904
TOTAL LIABILITIES AND NET ASSETS	\$ 2,907,765	\$ 2,955,389

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, 2017

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

	Unrestricted	Temporarily Restricted	Totals	
			2017	2016
SUPPORT AND REVENUE				
Support				
Contributions and grants	\$ 128,712	\$ 326,664	\$ 455,376	\$ 642,694
Donated services and materials	930	171,105	172,035	398,645
Special events, net	96,960	3,570	100,530	124,090
Restore program	528,061	-	528,061	480,077
Net assets released from restrictions				
Satisfaction of program/donor restrictions	493,034	(493,034)	-	-
Total support	1,247,697	8,305	1,256,002	1,645,506
Revenue				
Sale of homes	100,000	-	100,000	580,000
Mortgage loan discount amortization	71,789	-	71,789	63,002
Interest income	255	-	255	434
Miscellaneous income	20,011	-	20,011	8,184
Total revenue	192,055	-	192,055	651,620
TOTAL SUPPORT AND REVENUE	1,439,752	8,305	1,448,057	2,297,126
FUNCTIONAL EXPENSES				
Program service expenses	1,182,717	-	1,182,717	2,441,744
Management and general expenses	59,078	-	59,078	68,617
Fundraising expenses	167,495	-	167,495	149,526
TOTAL FUNCTIONAL EXPENSES	1,409,290	-	1,409,290	2,659,887
CHANGES IN NET ASSETS	30,462	8,305	38,767	(362,761)
NET ASSETS, BEGINNING OF YEAR	2,245,502	407,402	2,652,904	3,015,665
NET ASSETS, END OF YEAR	\$ 2,275,964	\$ 415,707	\$ 2,691,671	\$ 2,652,904

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, 2017
(With Summarized Financial Information for the Year Ended June 30, 2016)

	2017				2016	
	Program Services		Supporting Services		Totals	All Funds Combined
	Construction	ReStore	Management and General	Fundraising		
Salaries and wages	\$ 255,242	\$ 224,975	\$ 10,318	\$ 94,574	\$ 585,109	\$ 581,783
Payroll taxes and benefits	45,458	30,868	2,030	13,135	91,491	96,884
Advertising	-	10,533	-	-	10,533	10,877
Bad debt expense	68	-	-	-	68	4,400
Bank and credit card fees	-	10,624	62	3,706	14,392	11,904
Construction and building costs	277,179	-	-	-	277,179	1,243,831
Cost of goods sold	-	14,270	-	-	14,270	-
Depreciation	-	8,377	3,365	-	11,742	10,156
Discount on mortgages	19,457	-	-	-	19,457	143,409
Insurance	22,783	8,611	1,199	-	32,593	32,531
Interest	3,395	-	-	-	3,395	6,502
Office expenses	464	3,516	3,763	345	8,088	10,944
Other mission costs	1,682	-	-	-	1,682	1,337
Outside services	7,172	3,205	16,564	33,042	59,983	66,936
Membership dues	-	-	-	1,153	1,153	293
Miscellaneous	-	(5,229)	-	-	(5,229)	8,014
Postage and printing	-	22	867	11,573	12,462	9,103
Professional services	-	-	15,519	-	15,519	15,547
Property taxes	-	-	-	-	-	6,863
Rent and utilities	4,561	195,440	352	5,210	205,563	150,028
Repairs and maintenance	-	10,261	-	-	10,261	25,541
Telephone	1,364	-	2,197	-	3,561	4,552
Tithe to International	7,500	-	-	-	7,500	25,000
Travel and training	3,965	1,411	2,842	4,757	12,975	9,275
Vehicle expense	-	14,531	-	-	14,531	11,895
Volunteer appreciation	-	848	-	-	848	2,233
Direct fundraising expense	-	164	-	-	164	487
Gain/(loss) on disposal of assets	-	-	-	-	-	169,562
	<u>\$ 650,290</u>	<u>\$ 532,427</u>	<u>\$ 59,078</u>	<u>\$ 167,495</u>	<u>\$ 1,409,290</u>	<u>\$ 2,659,887</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, 2017 AND 2016

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash contributions and grants received	\$ 477,876	\$ 683,444
Cash paid to suppliers and employees	(865,047)	(1,036,378)
Interest received	255	434
Interest paid	(3,395)	(6,502)
Mortgage income and sale of homes	183,737	291,848
Restore program	(13,037)	(20,148)
Other operating receipts	111,788	140,328
Net cash provided (used) by operating activities	(107,823)	53,026
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(2,950)	(61,189)
Purchase of short term investments	80,364	(52,364)
Net cash provided (used) by investing activities	77,414	(113,553)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds / (payments) from line of credit	-	(56,000)
Principal proceeds / (payments) on long-term debt	(28,767)	(16,986)
Net cash provided (used) by financing activities	(28,767)	(72,986)
INCREASE (DECREASE) IN CASH	(59,176)	(133,513)
CASH, BEGINNING OF YEAR	365,990	499,503
CASH, END OF YEAR	\$ 306,814	\$ 365,990
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
CHANGES IN NET ASSETS	\$ 38,767	\$ (362,761)
ADJUSTMENTS TO RECONCILE INCREASE (DECREASE) IN NET ASSETS PROVIDED (USED) BY OPERATING ACTIVITIES		
Depreciation	11,742	10,156
Gain/(Loss) on sale of assets	-	169,562
(Increase) decrease in contributions and grants receivable	22,500	40,750
(Increase) decrease in other receivables	(8,753)	8,054
(Increase) decrease in inventory - Restore	(8,671)	13,099
(Increase) decrease in prepaid expenses	(2,081)	2,033
(Increase) decrease in inventory - construction costs	(115,651)	502,868
(Increase) decrease in mortgages receivable	11,948	(351,154)
Increase (decrease) in accounts payable	(25,194)	(14,415)
Increase (decrease) in accrued expenses	(33,430)	42,834
Increase (decrease) in prepaid deposits	1,000	(8,000)
Total adjustments	(146,590)	415,787
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	\$ (107,823)	\$ 53,026

NONCASH INVESTING AND FINANCING ITEMS

In-kind donated services and materials received were \$172,035 and \$398,645 for 2017 and 2016, respectively

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

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, 2017 and 2016.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 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 years ended June 30, 2017 and 2016, short term investments were \$0 and \$80,364, respectively.

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 are deemed to be collectible at June 30, 2017.

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, 2017 and 2016, the balance of contribution and grant receivables is \$52,500 and \$75,000, 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, 2017 and 2016 inventory was valued at \$129,793 and \$121,122, respectively.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

Note 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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, 2017 and 2016 was \$11,742 and \$10,156, respectively, of which \$8,377 and \$4,827 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, 2017 and 2016, the Organization accrued a liability for compensated absences in the amount of \$16,215 and \$13,906, 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, 2017 and 2016 mortgage income was \$71,789 and \$63,002, 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.

See independent auditor's report.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

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, 2017 and 2016 totaled approximately \$172,035 and \$398,645, 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, 2017 and 2016 is \$10,533 and \$10,877, 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, 2017 AND 2016

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, 2014 through June 30, 2017 (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, 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, 2017 and 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.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

Note 4. MORTGAGES RECEIVABLE

Transfers to homeowners represent the sale of houses built by Habitat in exchange 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, 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>
2018	\$ 93,693
2019	95,634
2020	96,658
2021	97,247
2022	106,547
Thereafter	<u>1,439,314</u>
Total	<u>\$ 1,929,093</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, 2017 and 2016 totaled \$1,519,885 and \$1,482,157, respectively. At present, management does not believe that any of the outstanding contingent mortgages will be realized.

Note 6. LONG-TERM DEBT

At June 30, 2017 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, 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 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.

Current portion	\$ 36,582
Long-term debt, net of current portion	<u>89,396</u>
Total	<u>\$ 125,978</u>

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

Note 6. LONG-TERM DEBT (Continued)

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

<u>Year Ended</u>	<u>Amount</u>
2018	\$ 36,582
2019	35,915
2020	33,941
2021	19,154
2022	<u>386</u>
Total	<u>\$ 125,978</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, 2017 the ReStore Program generated \$528,061 of revenues with associated costs of \$532,427. This resulted in a net loss of \$4,366. 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 the fiscal year ended June 30, 2016 consisted of a one-time write off of \$170,187 for abandoned leasehold improvements from the Billerica ReStore. The revenue total includes \$1,646 and \$2,406 of donated goods and materials for the years ended June 30, 2017 and 2016, respectively.

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	\$ 194,900
Less: Contingent Mortgage (see Note 5)	<u>(91,092)</u>
Adjusted Sales Price	103,808
Other Adjustments Required:	
Settlement Costs	(964)
Homeowner's Sweat Equity	(2,480)
Downpayment	(1,000)
Miscellaneous costs received at closing	<u>636</u>
Total Home Sales	<u>\$ 100,000</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 years ended June 30, 2017 and 2016 contributions to Habitat for Humanity International, Inc. were \$7,500 and \$25,000, respectively.

HABITAT FOR HUMANITY OF GREATER LOWELL, INC.
NOTES TO FINANCIAL STATEMENTS (CONTINUED)
YEARS ENDED JUNE 30, 2017 AND 2016

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 years ended June 30, 2017 and 2016 legal fees paid to this firm totaled \$2,121 and \$1,508, respectively. Management believes these transactions are not substantially different than if conducted with unrelated parties.

Note 12. SUBSEQUENT EVENTS

Management has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended June 30, 2017 through October 18, 2017, 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 February 2018 due to rising CAM charges and high utility costs. 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 Executive Director has been searching for new locations that will increase visibility and also reduce overhead costs. If a new location has not been found by the end of the year management will be forced to temporarily close the store, but will continue to look for a new location for start up again.