

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

ANNUAL FINANCIAL REPORT

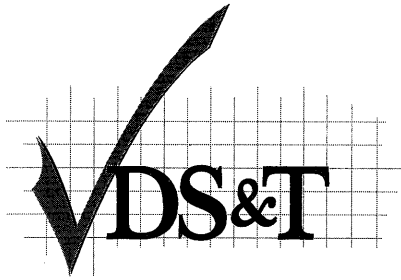
JUNE 30, 2016

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HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.

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

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## INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying financial statements of Habitat for Humanity, Lake County, Illinois, Inc., (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities and changes in net assets and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

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

### **Auditors' Responsibility**

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity, Lake County, Illinois as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Report on Supplementary Information**

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of functional expenses on page 13 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Dam, Snell & Taveirne, Ltd.*  
Dam, Snell & Taveirne, Ltd.  
Fox Lake, Illinois  
January 31, 2017

Habitat for Humanity, Lake County, Illinois, Inc.  
Statement of Financial Position  
June 30, 2016

**Assets**

Current Assets	
Cash	\$ 1,893,126
Restricted cash	337,480
Mortgages receivable, net - current portion (note 4)	415,011
Construction inventory (note 1)	8,675
Homes under construction (note 3)	289,826
Completed home inventory	18,901
Other current assets	<u>43,793</u>
Total Current Assets	3,006,812
Land held for development	115,972
Property and equipment, net (note 1,5)	23,134
Mortgages receivable, net - long term (note 4)	<u>3,733,570</u>
Total Assets	<u><u>\$ 6,879,488</u></u>

**Liabilities and Net Assets**

Current Liabilities	
Accounts payable and accrued liabilities	\$ 117,102
Homeowner escrows	<u>337,480</u>
Total Current Liabilities	<u>454,582</u>
Total Liabilities	<u>454,582</u>
Net Assets	
Unrestricted net assets	5,483,499
Temporarily restricted net assets (note 9)	<u>941,407</u>
Total Net Assets	<u>6,424,906</u>
Total Liabilities and Net Assets	<u><u>\$ 6,879,488</u></u>

See accompanying notes to the financial statements

Habitat for Humanity, Lake County, Illinois, Inc.  
Statement of Activities and Changes in Net Assets  
For the Year Ended June 30, 2016

<b>Unrestricted net assets</b>	
Unrestricted revenues	
Contributions	\$ 262,677
Amortization of mortgage discount	383,260
Donated materials and services	22,585
Income from sales of donated materials, net of related expenses	323,151
Other income	<u>77,092</u>
Total unrestricted revenues	1,068,765
Net assets released from restrictions	
Restrictions satisfied by home transfers (note 9)	<u>687,338</u>
Total unrestricted revenues and other support	<u>1,756,103</u>
Functional expenses	
Program services	1,103,116
General support services	218,668
Fundraising	<u>42,353</u>
Total functional expenses	<u>1,364,137</u>
Increase (decrease) in unrestricted net assets	391,966
Unrestricted net assets, beginning of year	<u>5,091,533</u>
<b>Unrestricted net assets, end of year</b>	<b><u>\$ 5,483,499</u></b>
<b>Temporarily restricted net assets</b>	
Contributions	\$ 524,335
Grants	125,138
Restrictions satisfied by home transfers (note 9)	<u>(687,338)</u>
Increase (decrease) in temporarily restricted net assets	(37,865)
Temporarily restricted net assets, beginning of year	<u>979,272</u>
<b>Temporarily restricted net assets, end of year</b>	<b><u>\$ 941,407</u></b>

See accompanying notes to the financial statements

Habitat for Humanity, Lake County, Illinois, Inc.  
Statement of Cash Flows  
For the Year Ended June 30, 2016

**Cash flows from operating activities:**

Change in net assets	\$ 354,101
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	12,879
Amortization of mortgage discount	(383,260)
Inventory	(234)
Completed home inventory	16,633
Net cost of homes transferred to homeowners	496,494
Other current assets	5,386
Accounts payable and accrued liabilities	(18,757)
Homeowner escrows	(9,383)
Net cash provided by (used in) operating activities	<u>473,859</u>

**Cash flows from investing activities:**

Construction costs paid	(638,687)
Collection of mortgage principal	<u>544,891</u>
Net cash provided by (used in) investing activities	<u>(93,796)</u>

Net increase (decrease) in cash and cash equivalents 380,063

Cash and cash equivalents at beginning of year 1,850,543

Cash and cash equivalents at end of year \$ 2,230,606

**Reconciliation to the financial statements**

Cash	\$ 1,893,126
Restricted cash	<u>337,480</u>
	<u>\$ 2,230,606</u>

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.  
Notes to Financial Statements  
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

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

HFH raises funds and gathers volunteers locally and therefore, is largely dependent upon the economic health of the community. Local contributions are supplemented in part by foundations and government grants. For the year ended June 30, 2016, cash donations were provided by numerous supporters, with no donors contributing 10% or more of total revenues.

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

Basis of Accounting

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

Basis of Presentation

Financial accounting standards require HFH to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

Cash and Cash Equivalents

Cash deposits held in banks at year-end in excess of the federally insured limits was \$444,285. HFH has not experienced any such losses relating as a result of the excess deposits.

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



HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.  
Notes to Financial Statements  
June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Restricted Cash

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

Contributions

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for specific purposes are reported as temporarily restricted support which increases those net asset classes. Temporarily restricted contributions are reported as such whether the restriction is satisfied in the current year or following years. When a temporary restriction is satisfied, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Grant Revenue

HFH has applied for and been awarded funding from various grant programs. HFH recognizes the award as revenue either when the cash is received or when the conditions stipulated in the grant agreement have been fulfilled, whichever comes first. In most cases, the grant terms require that HFH incurs the building or operating expenses before being eligible to receive the grant award.

Property and Equipment

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

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

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.

Notes to Financial Statements

June 30, 2016

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Compensated Absences

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

Functional Allocation of Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the Statement of Activities. Accordingly, certain costs have been allocated among the program and supporting services.

Estimates

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

Income Taxes

HFH is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code and therefore has made no provision for federal income taxes in the accompanying financial statements. In addition, HFH has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income during the year. As of June 30, 2016, management did not identify any uncertain tax positions. HFH's tax returns are no longer subject to examination by the Internal Revenue Service for years prior to June 30, 2013.

Construction Inventory

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

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

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.

Notes to Financial Statements

June 30, 2016

NOTE 2 – TRANSFERS TO HOMEOWNERS

Homes are recorded as transferred to homeowners at the time the homeowner moves in. The sale price is determined by a standard formula and is substantially less than the market value. Five new homes were transferred during the year. The homeowner is issued a non-interest bearing mortgage for the full amount of the sale price. The amount of the transfer is the cost of land and construction less the present value of new mortgages issued.

During the current year a house was repossessed and not sold. This house is recorded in completed homes inventory.

The following table shows the amounts transferred to homeowners:

Amount of transfers to homeowners:	
Costs of land	\$ 205,492
Costs of construction	597,403
Costs of infrastructure	-
Amount of new mortgages:	
Face value	\$ 359,640
Less discount	<u>(216,905)</u>
Present value of new mortgages	<u>(142,735)</u>
	<u><u>\$ 660,160</u></u>

NOTE 3 – HOMES UNDER CONSTRUCTION

Construction costs are charged to construction in progress as incurred. As of June 30, 2016, three homes were under construction and one rehab project was in progress. All homes are located in Lake County, Illinois.

NOTE 4 – MORTGAGES RECEIVABLE

Completed homes are leased to the homeowner prior to closing for a period of up to one year with an option to purchase. The lease allows all rental payments to be applied in full to the sale price and virtually all homeowners complete the purchase of the home. The sale price is determined by a standard formula and is substantially less than the market value. The homeowner is issued a mortgage for the full amount of the sale price.

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.

Notes to Financial Statements

June 30, 2016

NOTE 4 – MORTGAGES RECEIVABLE, continued

All mortgages are interest free and are to be repaid over a term of 15 to 30 years. For financial statement purposes the sale prices and mortgages receivable are recorded at a discounted amount calculated using discount rates ranging from 7.38% to 8.06%. The discount is amortized over the life of the mortgage using the interest rate method. At year end, the balances of mortgages receivable and unamortized discounts are as follows:

Balance of mortgages receivable, net	\$ 8,192,411
Unamortized discounts	<u>(4,043,830)</u>
Net mortgages receivable	4,148,581
Less current portion	<u>(415,011)</u>
Long term portion	<u><u>\$ 3,733,570</u></u>

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

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

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

NOTE 5 – PROPERTY AND EQUIPMENT, NET

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

Vehicles	\$ 83,079
Warehouse and construction equipment	58,402
Computer equipment	23,238
Office equipment	24,826
Leasehold improvements	<u>16,852</u>
Total property and equipment	206,397
Less accumulated depreciation	<u>(183,263)</u>
Net property and equipment	<u><u>\$ 23,134</u></u>

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.  
Notes to Financial Statements  
June 30, 2016

NOTE 6 – COMMITMENTS AND CONTINGENCIES

HFH is liable under an operating lease dated October 23, 2014. The lease is for a term of five years commencing on March 1, 2015 and calls for monthly payments of \$9,000 with annual increases of 3%. The lease is for the ReStore facility. Amounts remaining under the lease are as follows:

Year ended June 30, 2017	\$ 112,352
2018	115,723
2019	119,195
2020	81,037

HFH is an affiliate of Habitat for Humanity International and is required to tithe 10% of cash contributions not restricted to local use in Lake County, Illinois. These funds are used exclusively for construction of housing for needy families outside of the United States. The total tithe paid for the year ended June 30, 2016 was \$27,992.

NOTE 7 – NOTES PAYABLE

A construction loan was obtained in an original amount of \$500,000. As of June 30, 2016, the balance due was \$0. Interest is at a variable rate that was 3.50% at June 30, 2016. The note matures on April 1, 2017 and is secured by homes under construction.

A construction loan for the purpose of purchasing land was obtained in an original amount of \$200,000. As of June 30, 2016, the balance due was \$0. Interest is at a variable rate that was 3.50% at June 30, 2016. The note matures on April 1, 2017 and is secured by the land purchased.

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

There are no principal repayments due in the next five years.

NOTE 8 – DONATED MATERIALS, FACILITIES AND SERVICES

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

HFH receives donations of materials that are used in the construction of homes. These materials are valued by the donor and are included in income and costs of construction. Materials in the amount of \$22,585 were received during the current year.

HABITAT FOR HUMANITY, LAKE COUNTY, ILLINOIS, INC.  
Notes to Financial Statements  
June 30, 2016

NOTE 9 – TEMPORARILY AND PERMANENTLY RESTRICTED ASSETS

Temporarily restricted net assets are available for the purchase of land and construction of specific homes in Lake County, Illinois. As a home is completed and transferred, net assets temporarily restricted to the construction of the transferred home are released from the restriction. The amount released from restriction for the current year was \$687,338. The amount of temporarily restricted net assets at June 30, 2016 was \$941,407. The Organization has no permanently restricted net assets.

NOTE 10 – BENEFIT PLAN

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

NOTE 11 – SUBSEQUENT EVENTS

Habitat for Humanity's management has performed an analysis of the activities and transactions subsequent to June 30, 2016 to determine the need for any adjustments to and/or disclosures within the audited financial statements for the year ended June 30, 2016. Management has performed their analysis through January 31, 2017, the date that the financial statements were available to be issued.

Habitat for Humanity, Lake County, Illinois, Inc.  
Schedule of Functional Expenses  
For the Year Ended June 30, 2016

	Program Services	General Support Services	Fund- raising	Total Expenses
Computer software and maintenance	\$ 576	\$ 2,408	\$ 1,961	\$ 4,945
Transfers to homeowners (note 2)	660,160	-	-	660,160
Home pricing adjustment expense	30,239	-	-	30,239
Nonrecovered project costs	16,154	-	-	16,154
Construction manager	10,816	-	-	10,816
Construction supplies, tools, rentals	11,677	-	-	11,677
Americorp expenses	48,231	-	-	48,231
Credit checks	1,246	-	-	1,246
Depreciation	9,015	773	3,091	12,879
Dues and subscriptions	-	1,656	96	1,752
Food, lodging and travel	228	790	129	1,147
Tithe to Habitat for Humanity Int'l. (note 6)	27,992	-	-	27,992
Insurance - liability	11,801	3,349	2,530	17,680
Insurance - workers compensation	4,951	2,476	2,475	9,902
Land holding costs	59,268	-	-	59,268
Newsletters	-	-	354	354
Office supplies and expenses	1,056	636	734	2,426
Other expense	1,223	404	-	1,627
Other taxes	483	-	-	483
Postage and freight	859	573	261	1,693
Printing	293	180	242	715
Professional services	-	72,933	-	72,933
Public relations and advertising	-	48	1,814	1,862
Rent (note 8)	19,208	-	16	19,224
Repairs and maintenance	230	478	21	729
Salaries	139,290	114,804	23,600	277,694
Payroll taxes and benefits	22,171	14,681	2,287	39,139
Telephone	3,461	1,730	1,731	6,922
Training	1,125	-	190	1,315
Utilities	7,828	749	708	9,285
Vehicle expense	13,535	-	-	13,535
Volunteer recognition	-	-	113	113
<b>Total Functional Expenses</b>	<b><u>\$ 1,103,116</u></b>	<b><u>\$ 218,668</u></b>	<b><u>\$ 42,353</u></b>	<b><u>\$ 1,364,137</u></b>