

**GREATER CLEVELAND
HABITAT FOR HUMANITY, INC.**

FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors

Greater Cleveland Habitat for Humanity, Inc.

Cleveland, Ohio

We have audited the accompanying financial statements of **Greater Cleveland Habitat for Humanity, Inc.** (a nonprofit organization), which comprise the statements of financial position as of December 31, 2016 and March 31, 2016, and the related statements of activities, functional expenses, and cash flows for the nine months ended December 31, 2016 and year ended March 31, 2016, 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 audits. We conducted our audits 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 the significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe 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 **Greater Cleveland Habitat for Humanity, Inc.** as of December 31, 2016 and March 31, 2016, and the changes in its net assets and its cash flows for the nine months ended December 31, 2016 and year ended March 31, 2016 in conformity with accounting principles generally accepted in the United States of America.

Zinner & Co. LLP

Beachwood, Ohio

March 25, 2017

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2016 AND MARCH 31, 2016

	December 31,	March 31,
	2016	2016
	<hr/>	<hr/>
Assets		
Cash and cash equivalents	\$ 658,870	\$ 515,198
Cash designated for home builds and other operational costs	232,239	348,085
Receivables		
Mortgages receivable	2,972,523	2,583,395
Escrows receivable	111,421	124,412
Discount and reserves for mortgages and escrows receivables	(1,751,962)	(1,899,050)
Unconditional promises to give - Unrestricted	351,167	98,426
Unconditional promises to give - Temporarily restricted	50,000	179,574
Other receivables	319,519	74,044
Related party receivable	0	12,863
Prepaid expenses and deposits	38,483	16,930
Inventories		
Materials inventory	173,053	118,297
ReStore inventory	413,370	459,700
Construction in progress		
Rehab homes	1,058,669	470,505
Anticipated loss on home builds	(225,697)	(104,360)
Homes under lease, net of discount and accumulated lease payments	0	444,943
Property and equipment, net	185,197	166,167
Assets to be placed in service	10,000	0
Assets held for resale	9,400	9,400
	<hr/>	<hr/>
Total Assets	\$4,606,252	\$3,618,529
	<hr/>	<hr/>
Liabilities		
Accounts payable	\$ 143,755	\$ 108,417
Accounts payable - Related party	2,500	0
Accrued expenses	113,476	82,485
Line of credit	103,423	113,423
Capital leases payable	135,501	109,306
Notes payable	3,494	4,281
	<hr/>	<hr/>
Total Liabilities	502,149	417,912
	<hr/>	<hr/>
Net Assets		
Unrestricted		
Available for programs and services	1,533,857	1,114,390
Allocated to affordable housing programs	2,338,007	1,738,142
	<hr/>	<hr/>
	3,871,864	2,852,532
Temporarily restricted	232,239	348,085
	<hr/>	<hr/>
Total Net Assets	4,104,103	3,200,617
	<hr/>	<hr/>
Total Liabilities and Net Assets	\$4,606,252	\$3,618,529
	<hr/>	<hr/>

The accompanying notes are an integral part of these financial statements.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

FOR THE NINE MONTHS ENDED DECEMBER 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Support and Revenues			
Contributions	\$ 1,825,866	\$ 50,455	\$ 1,876,321
Home sales	894,000	0	894,000
ReStore sales activity			
Gross sales	1,371,091	0	1,371,091
Donated inventory	1,313,798	0	1,313,798
Less: Cost of sales	(1,374,730)	0	(1,374,730)
Other donated goods and services	104,364	0	104,364
Special events			
Gross revenue	20,467	0	20,467
Less: Direct expenses	(2,345)	0	(2,345)
Rental income (expense)	(9,949)	0	(9,949)
Service fees and other income	125,718	0	125,718
	<u>4,268,280</u>	<u>50,455</u>	<u>4,318,735</u>
Net assets released from restrictions:			
Satisfaction of program restrictions	166,301	(166,301)	0
	<u>166,301</u>	<u>(166,301)</u>	<u>0</u>
Total Reclassifications			
	<u>166,301</u>	<u>(166,301)</u>	<u>0</u>
Total Support and Revenues	4,434,581	(115,846)	4,318,735
Expenses			
Program services	2,895,021	0	2,895,021
General and administrative	244,169	0	244,169
Fundraising and development	276,059	0	276,059
	<u>3,415,249</u>	<u>0</u>	<u>3,415,249</u>
Change in Net Assets	1,019,332	(115,846)	903,486
Net Assets at Beginning of Year	<u>2,852,532</u>	<u>348,085</u>	<u>3,200,617</u>
Net Assets at End of Year	3,871,864	232,239	4,104,103
Board Designated and Restricted Net Assets	0	(232,239)	(232,239)
Unrestricted Net Assets Allocated to Affordable Housing Programs	<u>(2,338,007)</u>	<u>0</u>	<u>(2,338,007)</u>
Unrestricted Net Assets Available for Programs and Services	<u>\$ 1,533,857</u>	<u>\$ 0</u>	<u>\$ 1,533,857</u>

The accompanying notes are an integral part of these financial statements.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED MARCH 31, 2016

	Unrestricted	Temporarily Restricted	Total
Support and Revenues			
Contributions	\$ 1,245,601	\$ 344,224	\$ 1,589,825
Home Sales	790,000	0	790,000
ReStore sales activity			
Gross sales	1,770,258	0	1,770,258
Donated inventory	1,803,999	0	1,803,999
Less: Cost of sales	(1,772,757)	0	(1,772,757)
Other donated goods and services	101,523	0	101,523
Special events			
Gross revenue	19,207	0	19,207
Less: Direct expenses	(24,234)	0	(24,234)
Rental income	29,344	0	29,344
Service fees and other income	18,905	0	18,905
	3,981,846	344,224	4,326,070
Net assets released from restrictions:			
Satisfaction of program restrictions	403,336	(403,336)	0
	403,336	(403,336)	0
Total Reclassifications	403,336	(403,336)	0
Total Support and Revenues	4,385,182	(59,112)	4,326,070
Expenses			
Program services	2,924,467	0	2,924,467
General and administrative	248,276	0	248,276
Fundraising and development	243,061	0	243,061
	3,415,804	0	3,415,804
Change in Net Assets	969,378	(59,112)	910,266
Net Assets at Beginning of Year	1,883,154	407,197	2,290,351
Net Assets at End of Year	2,852,532	348,085	3,200,617
Board Designated and Restricted Net Assets	0	(348,085)	(348,085)
Unrestricted Net Assets Allocated to Affordable Housing Programs	(1,738,142)	0	(1,738,142)
Unrestricted Net Assets Available for Programs and Services	\$ 1,114,390	\$ 0	\$ 1,114,390

The accompanying notes are an integral part of these financial statements.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE NINE MONTHS ENDED DECEMBER 31, 2016

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	
Salaries and Related Expenses				
Salaries	\$ 791,172	\$ 131,467	\$ 160,519	\$ 1,083,158
Payroll taxes	121,803	20,240	24,712	166,754
Employee benefits	156,964	26,082	31,846	214,892
Total Salaries and Related Expenses	1,069,938	177,789	217,077	1,464,804
Other Operating Expenses				
Advertising	26,298	0	0	26,298
Banking fees and charges	15,843	405	0	16,248
Costs of home construction	1,191,063	0	0	1,191,063
Depreciation	32,446	0	0	32,446
Mortgage portfolio costs				
Present value discount on new loans	319,792	0	0	319,792
Imputed interest	(69,397)	0	0	(69,397)
Other portfolio costs	(244,391)	0	0	(244,391)
Dues and subscriptions	7,188	200	1,480	8,868
Equipment rental	11,454	769	962	13,186
Gifts and awards	9,005	0	0	9,005
Insurance	31,216	2,594	3,170	36,980
Interest	2,576	3,362	0	5,938
Late fees	0	50	0	50
Miscellaneous operating expenses	1,314	249	16	1,579
Office and computer supplies	18,745	1,521	1,902	22,167
Postage and delivery	2,643	567	567	3,777
Printing and publications	5,176	2,152	9,581	16,908
Professional fees and contract services	44,675	22,653	11,253	78,581
Rent and insurance	236,348	16,848	20,592	273,788
Repairs and maintenance	14,527	1,016	635	16,178
Security	12,030	99	121	12,250
Telephone	18,938	3,044	2,536	24,518
Travel, mileage and lodging	22,977	4,914	2,111	30,002
Meetings and events	9,229	763	824	10,815
Utilities	79,138	5,174	3,234	87,546
Local vehicle expense	23,876	0	0	23,876
Rental property expense	2,375	0	0	2,375
Total Other Operating Expenses	1,825,083	66,380	58,982	1,950,446
Total Expenses	\$ 2,895,021	\$ 244,169	\$ 276,059	\$ 3,415,249
	85%	7%	8%	100%

The accompanying notes are an integral part of these financial statements.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED MARCH 31, 2016

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>General and Administrative</u>	<u>Fundraising and Development</u>	
Salaries and Related Expenses				
Salaries	\$ 922,052	\$ 124,228	\$ 124,579	\$ 1,170,859
Payroll taxes	117,321	15,807	15,851	148,979
Employee benefits	120,465	16,230	16,276	152,971
Total Salaries and Related Expenses	1,159,838	156,265	156,706	1,472,809
Other Operating Expenses				
Advertising	40,839	0	0	40,839
Banking fees and charges	21,979	1,113	46	23,138
Costs of home construction	832,393	0	0	832,393
Depreciation	36,917	0	0	36,917
Mortgage portfolio costs				
Present value discount on new loans	226,038	0	0	226,038
Imputed interest	(87,367)	0	0	(87,367)
Other portfolio costs	(35,184)	0	0	(35,184)
Dues and subscriptions	5,195	70	305	5,570
Equipment rental	16,542	1,590	1,744	19,876
Gifts and awards	6,806	469	470	7,745
Insurance	31,351	2,663	3,254	37,268
Interest	6,399	276	414	7,089
Late fees	0	119	0	119
Miscellaneous operating expenses	9,424	169	125	9,718
Office and computer supplies	52,796	7,034	7,054	66,884
Postage and delivery	24,904	1,333	5,631	31,868
Printing and publications	18,705	844	3,312	22,861
Professional fees and contract services	51,506	40,695	19,504	111,705
Rent and insurance	270,297	21,405	26,161	317,863
Repairs and maintenance	16,789	1,889	2,308	20,986
Security	10,026	1,128	1,379	12,533
Telephone	20,787	2,797	3,449	27,033
Travel, mileage and lodging	24,217	3,263	3,272	30,752
Local vehicle expense	12,257	0	0	12,257
Meetings and events	110,494	5,154	7,927	123,575
Utilities	29,686	0	0	29,686
Rental property expense	10,833	0	0	10,833
Total Other Operating Expenses	1,764,629	92,011	86,355	1,942,995
Total Expenses	\$ 2,924,467	\$ 248,276	\$ 243,061	\$ 3,415,804
	86%	7%	7%	100%

The accompanying notes are an integral part of these financial statements.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

**FOR THE NINE MONTHS ENDED DECEMBER 31, 2016 AND
YEAR ENDED MARCH 31, 2016**

	<u>December 31,</u> <u>2016</u>	<u>March 31,</u> <u>2016</u>
Cash Flows from Operating Activities		
Change in net assets	\$ 903,486	\$ 910,266
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	47,536	45,377
Reserves for mortgages and escrows receivable	(147,088)	(102,308)
Amortization of mortgage loan discount	(69,396)	(87,367)
Discount on mortgages issued	319,791	226,038
Cash provided (used) by changes in certain assets and liabilities:		
Cash designated for home builds and other operational costs	115,846	59,112
Mortgage receivable - New mortgages issued	(671,103)	(501,526)
Reductions in mortgages receivable	141,712	261,902
Escrow receivable	12,991	17,907
Unconditional promises to give	(123,167)	(243,000)
Other receivable	(245,475)	(17,376)
Related party receivable	12,863	(12,863)
Inventory	(54,756)	(68,030)
ReStore inventory	46,330	(89,546)
Homes held for rehab	(588,164)	157,465
Anticipated loss on future home sales	121,337	(182,586)
Homes under lease	444,943	(1,278)
Prepaid expenses and deposits	(21,553)	(3,234)
Accounts payable	35,338	9,930
Accounts payable - Related party	2,500	0
Accrued expenses	30,991	(54,407)
Net Cash Provided by Operating Activities	<u>314,962</u>	<u>324,476</u>
Cash Flows from Investing Activities		
Purchase of fixed assets	<u>(15,710)</u>	<u>(57,415)</u>
Net Cash Used by Investing Activities	<u>(15,710)</u>	<u>(57,415)</u>
Cash Flows from Financing Activities		
Net payments on accelerated asset recovery loans	(115,065)	(153,653)
Net payments on long-term debt	(787)	(1,051)
Payments under capitalized lease obligation	(29,728)	(30,334)
Net payments on line-of-credit agreement	<u>(10,000)</u>	<u>(9,600)</u>
Net Cash Used by Financing Activities	<u>(155,580)</u>	<u>(194,638)</u>
Net Increase in Cash and Cash Equivalents	143,672	72,423
Cash and Cash Equivalents at Beginning of Year	<u>515,198</u>	<u>442,775</u>
Cash and Cash Equivalents at End of Year	<u>\$ 658,870</u>	<u>\$ 515,198</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 5,938	\$ 7,098
Supplemental Disclosure of Non-Cash Transactions:		
Vehicles acquired under capital lease obligations	\$ 60,855	\$ 50,879
Non-cash contributions of inventory received at fair market value	1,313,798	1,803,999
Non-cash cost of sales recognized	1,374,730	1,772,757

The accompanying notes are an integral part of these financial statements.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

Greater Cleveland Habitat for Humanity, Inc. (GCHFH), a not-for-profit organization, is an affiliate of Habitat for Humanity International, Inc., a non-denominational Christian not-for-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience for people everywhere. While Habitat for Humanity International, Inc. assists with informational resources, training, publications, prayer, support, and in other ways, GCHFH is primarily and directly responsible for its own operations.

GCHFH, through its many volunteers, constructs and rehabilitates affordable housing and transfers the homes to qualified families at cost and provides non-interest bearing mortgage loans. GCHFH is primarily responsible for the legal, organizational, fundraising, family selection and nurture, financial and construction aspects of the work.

GCHFH changed its year-end from March 31st to December 31st. As such, these financial statements are presented as of and for the nine months ended December 31, 2016 and as of and for the year ended March 31, 2016.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, GCHFH is required 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.

ASC 958-205 requires board-designated funds to be reported as part of unrestricted net assets; accordingly, GCHFH reports designations of voluntary board-approved segregations of unrestricted net assets for specific purposes as a classification of unrestricted net assets.

Basis of Accounting

The financial statements of GCHFH have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, GCHFH considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Cash and cash equivalents received with donor-imposed restrictions limiting their use to long-term purposes are not considered cash and cash equivalents for purposes of the Statement of Cash Flows.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Unconditional Promises to Give

Contributions are recognized when the donor makes a promise to give to GCHFH that is, in substance, unconditional. Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received.

Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

GCHFH uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance deemed necessary for uncollectible promises to give as of December 31, 2016 and March 31, 2016.

Mortgages Receivable, Discounts, and Allowances

As constructed and completed homes are transferred to qualified families, GCHFH allows qualified families to purchase the homes at appraised value subject to mortgages which bear no interest. Mortgages receivable consist of non-interest bearing mortgages secured by real estate and payable in monthly installments over the life of the mortgage. These mortgages are for terms between 5 and 30 years.

The mortgages are recorded at the gross amount of payments to be received over the life of the mortgage and are discounted at various rates ranging from 7.39% to 9.00% based on the prevailing market rates at the inception of the mortgage as established by Habitat for Humanity International, Inc. A discount on the mortgages is recorded to reflect the economic benefit of the zero-interest-mortgage to the qualified families. Discounts are amortized over the life of the mortgage using the effective interest method. Mortgages receivable are periodically reviewed for uncollectibility based on past history and current economic conditions.

GCHFH also holds a second mortgage on some properties that represents the difference between the estimated fair market value of the house and the first mortgage balance as of the transfer date. The second mortgage is in place to mitigate the risk of the homeowner selling the home for a profit. In the event that a homeowner sells the home prior to the first mortgage being repaid, GCHFH will receive the prorated portion of the mortgage amount from the proceeds of the sale. Due to the uncertainty regarding the potential for collection related to second mortgages, no amounts have been recorded in these financial statements. Proceeds from second mortgages would be recorded as income in the period collected.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages Receivable, Discounts, and Allowances (Continued)

GCHFH has established several reserves to account for the risk of mortgage default. The reserve for loan loss is based on prior collection history of mortgages receivable. As of December 31, 2016 and March 31, 2016, GCHFH estimates that 10% and 27% of the loans issued will fall into foreclosure, respectively. The reserve balance is based on the total mortgages receivable less the present value discount and less the value of the mortgages that have fallen into pre-foreclosure as of year-end multiplied by aforementioned percentages. As of December 31, 2016 and March 31, 2016, the reserve for loan loss was \$118,000 and \$240,000, respectively.

The anticipated loss on foreclosed properties reserve has been established for delinquent mortgages that have entered the pre-foreclosure stage. GCHFH estimates that the resale value of a foreclosed home is \$10,000. The anticipated loss on foreclosed properties reserve is the difference between the balance due on the mortgage in pre-foreclosure, any escrow receivable and the sum of the present-value reserve for that home and the \$10,000 expected resale value as estimated by GCHFH. As of December 31, 2016, there were 12 homes in pre-foreclosure with a balance of \$551,698. As of March 31, 2016, there were 13 homes in pre-foreclosure with a balance due of \$754,036. As of December 31, 2016 and March 31, 2016, the reserve for anticipated loss on foreclosed properties was \$181,000 and \$254,000, respectively.

Escrow Receivables and Liabilities

GCHFH collects escrow amounts from qualified families for the payments of taxes, insurance, and utilities. These amounts are held in escrow pending the payment of expenses relating to the funds received. At times, the amounts collected from family partners are less than the impounds due, resulting in escrow receivable balances.

Homes Held for Rehab

If a partner family has difficulty making their mortgage payments, GCHFH will reclaim their home. In doing so, the value of the home when it is reclaimed is based on the mortgage receivable and escrow receivable balances due as of the date the home was reclaimed. A reclaimed home is considered a home held for rehab until GCHFH incurs any rehab costs, at which point, the reclaimed home is considered a construction in progress. While a home is held for rehab, GCHFH may incur costs associated with real estate tax, insurance, and securing the home.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventories

Inventories consist of purchased and donated raw materials used in the construction of partner-family homes. The value of in-kind donations included in inventory is recorded at an estimated fair market value, as determined by management, at the time of receipt. All other inventory items are valued at the lower of cost or market. Purchased inventory is recorded at cost. ReStore (retail store for sale of donated goods) inventory consists of contributed inventory, small furnishings, and tools. The value of the donated goods is determined based on the sales price received by GCHFH. At year end, the ReStore inventory value is determined based on management's estimation of the value of the inventory on hand.

Property and Equipment

Property and equipment are recorded at cost, or if donated, at estimated fair market value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Expenditures for replacements and improvements are capitalized while maintenance and repairs that do not improve or extend the life of the respective assets are expensed currently.

GCHFH's capitalization threshold varies based on the type of expense incurred. Depreciation is computed using the straight-line method, utilizing the following lives:

Class	Years
Office furniture	3 - 5
Equipment	5
Vehicles	5
Building and improvements	20 - 40

Anticipated Loss on Future Home Builds

Losses are accrued on homes that GCHFH has committed to build for qualified families. This loss is determined by estimating the difference between the sale price of the homes and the total cost of construction.

Restricted and Unrestricted Revenue and Support

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted and Unrestricted Revenue and Support (Continued)

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a 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 as net assets released from restrictions. Funds received related to conditional grants are classified as refundable advances until expended for the purposes of the grants.

Donated Services

GCHFH receives various non-construction related services each year. These services do not meet the criteria for recognition under ASC 958-605 and are not reflected in the statements.

Vacation Pay

Vacation pay is expensed when paid. Any accrual of vacation pay as of December 31, 2016 and March 31, 2016 is not material to the financial statements.

Pervasiveness of Estimates

Management uses estimates and assumptions in preparing financial statements in accordance with generally accepted accounting principles. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities, and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and equivalents and promises to give. The Organization maintains its cash and equivalents with financial institutions and although at times they may have invested amounts in excess of any federal insurance limits, management does not feel that it is exposed to any substantial credit risk. Concentrations with respect to promises to give are limited due to the large number of donors comprising the Organization's donor base and the variety of the Organization's funding sources. As of the December 31, 2016 and March 31, 2016, the Organization had no other significant concentrations of credit risk.

Functional Allocation of Expenses

Costs of providing various programs and supporting services are allocated based on specific identification, if practical, or management's estimation of the respective functions benefited.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Description of Functional Expenses

Program Services:

GCHFH strives to eliminate sub-standard housing through family development, neighborhood development and raising awareness of housing issues and solutions. GCHFH constructs affordable housing, transfers the homes to qualified families at cost, and provides non-interest bearing mortgage loans. These homes serve as a catalyst for comprehensive neighborhood development projects that are supported by family and volunteer educational activities.

In addition, the ReStore Program's (retail store for sale of donated goods) primary goal is to raise money for GCHFH, while reducing the amount of building materials deposited in landfills. This will also provide materials and products at a reduced cost to local contractors and do-it-yourselfers.

General and Administrative:

Expenses are incurred in the day-to-day operations of GCHFH.

Fundraising and Development:

Expenses are incurred in raising additional funds for GCHFH.

Advertising

Advertising costs are expensed as incurred. During the nine months ended December 31, 2016 and the year ended March 31, 2016, advertising costs were \$26,298 and \$39,743, respectively.

Subsequent Events

Subsequent events applicable to the nine months ended December 31, 2016 have been evaluated through March 25, 2017, the date the financial statements were available to be issued.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE B - PROMISES TO GIVE

Unconditional promises to give at December 31, 2016 and March 31, 2016 consist of the following:

	December 31, 2016	March 31, 2016
Unrestricted promises	\$ 359,000	\$ 98,426
Restricted for building staff capacity for neighborhood revitalization program	0	45,000
Restricted for homes	50,000	134,574
Total unconditional promises to give	<u>409,000</u>	<u>278,000</u>
Less: Unamortized discount	<u>(7,833)</u>	<u>0</u>
Net Unconditional Promises to Give	<u>\$ 401,167</u>	<u>\$ 278,000</u>
	<u>2016</u>	<u>2016</u>
Amounts due in:		
Less than one year	\$ 246,000	\$ 178,000
One to five years	<u>163,000</u>	<u>100,000</u>
Total Amounts Due	<u>\$ 409,000</u>	<u>\$ 278,000</u>

NOTE C - CONSTRUCTION IN PROGRESS

Costs incurred relating to homes under construction but not completed at the end of each year are recorded as construction in progress. Construction costs include the cost of labor and materials purchased by GCHFH. Donated materials are recorded based on their estimated value at the time of receipt. No amounts have been recorded in construction in progress for donated services, as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the construction of the homes.

Construction in progress on Rehab homes as of and during the nine months ended December 31, 2016 and the year ended March 31, 2016 consist of the following:

	Number	Costs
Rehab homes under construction - April 1, 2016	20	\$ 470,505
Additional costs incurred on beginning homes	0	756,082
Rehab homes started during the period	16	479,861
Rehab Homes transferred out during the period	<u>(10)</u>	<u>(647,779)</u>
Rehab homes under construction - December 31, 2016	<u>26</u>	<u>\$ 1,058,669</u>

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE C - CONSTRUCTION IN PROGRESS (CONTINUED)

	<u>Number</u>	<u>Costs</u>
Rehab homes under construction - April 1, 2015	14	\$ 627,970
Additional costs incurred on beginning homes	0	370,226
Rehab homes started during the year	18	336,260
Rehab homes transferred out during the year	<u>(12)</u>	<u>(863,951)</u>
Rehab homes under construction - March 31, 2016	<u>20</u>	<u>\$ 470,505</u>

NOTE D - HOMES UNDER LEASE

Homes under lease are completed homes occupied by qualified families under lease terms for a period of time before the actual sale of the home. As of December 31, 2016 and March 31, 2016, the balance of homes under lease was \$0 and \$444,943, respectively, which is net of discount and accumulated lease payments of \$0 and \$184,699 as of December 31, 2016 and March 31, 2016, respectively.

NOTE E - MORTGAGES RECEIVABLE

As homes are transferred to qualified families, GCHFH allows qualified families to purchase homes at appraised value subject to mortgages which bear no interest. These mortgages are for terms between 5 and 30 years. A discount on the mortgages is recorded in order to reflect the economic benefit of the zero-interest mortgage to the qualified families.

The discount recorded has been estimated based on the prevailing interest, as determined by Habitat for Humanity, International, Inc., at the point of inception. A portion of the discount is amortized as interest each year that the mortgage is outstanding. The discounted mortgages receivable balance is considered to be representative of fair value.

The mortgage receivable balance as of December 31, 2016 is comprised of the following items:

	<u>For the nine months ended December 31, 2016</u>		
	<u>Total</u>	<u>Current Portion</u>	<u>Long-Term Portion</u>
Mortgage receivable - Gross	\$ 2,972,523	\$ 185,581	\$ 2,786,942
Less:			
Discount on mortgages receivable	(1,352,962)	(87,984)	(1,264,978)
Allowance for foreclosure risk	(181,000)	0	(181,000)
Allowance for loan loss on non-AAR loans	(118,000)	0	(118,000)
Allowance for substitutions on AAR loans	<u>(100,000)</u>	<u>0</u>	<u>(100,000)</u>
Mortgage receivable - Net	<u>\$ 1,220,561</u>	<u>\$ 97,597</u>	<u>\$ 1,122,964</u>

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE E - MORTGAGES RECEIVABLE (CONTINUED)

The mortgage receivable balance as of March 31, 2016 is comprised of the following items:

	For the year ended March 31, 2016		
	Total	Current Portion	Long-Term Portion
Mortgage receivable - Gross	\$ 2,583,395	\$ 198,249	\$ 2,385,146
Less:			
Discount on mortgages receivable	(1,165,050)	(94,212)	(1,070,838)
Allowance for foreclosure risk	(254,000)	0	(254,000)
Allowance for loan loss on non-AAR loans	(240,000)	0	(240,000)
Allowance for substitutions on AAR loans	(240,000)	0	(240,000)
Mortgage receivable - Net	\$ 684,345	\$ 104,037	\$ 580,308

During the nine months ended December 31, 2016, 12 homes were sold to qualified families recognizing \$894,000 of revenue from the sales. During the year ended March 31, 2016, 12 homes were sold to qualified families recognizing \$790,000 of revenue from the sale.

As discussed in Note F, in prior years, GCHFH entered into agreements with several local banks through which certain mortgages receivable were sold by GCHFH to the banks.

NOTE F - ACCELERATED ASSET RECOVERY LOANS

As discussed in Note E, certain mortgage receivables were sold by GCHFH to banks at discounted rates ranging from 51% to 70% of the outstanding balance. As a term of the agreements, GCHFH agreed to service the loans for the banks at no additional cost. As well, if any mortgage becomes more than 60 days delinquent, GCHFH has agreed to substitute the delinquent mortgage for a current mortgage. As such, an allowance for substitutions has been established as of December 31, 2016 and March 31, 2016 in the amount of \$100,000 and \$240,000, respectively.

As of December 31, 2016 and March 31, 2016, there are 45 and 50 mortgages, respectively, funding the portfolio balance with these financial institutions. The balance the banks expect GCHFH to collect and subsequently remit to them over the life of these sold mortgages amounted to \$1,327,048 and \$1,438,121, respectively, as of December 31, 2016 and March 31, 2016. Once these outstanding balances to the banks are fulfilled, any future mortgage collections on these mortgages will be retained by GCHFH. During the nine months ended December 31, 2016 no banks exercised rights of recourse. During the year ended March 31, 2016, one bank exercised its recourse option and GCHFH substituted 1 home to replace 1 home previously funding the portfolio balance.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE G - PROPERTY AND EQUIPMENT

Property and equipment, as of December 31, 2016 and March 31, 2016 are comprised of the following:

	December 31, 2016	March 31, 2016
Office equipment	\$ 190,702	\$ 190,702
Leasehold improvements	50,915	50,915
Vehicles under capital lease	217,103	156,247
Vehicles	25,000	25,000
Construction equipment	73,077	67,367
	<u>556,797</u>	<u>490,231</u>
Less: Accumulated depreciation	371,600	324,064
	<u>\$ 185,197</u>	<u>\$ 166,167</u>

Depreciation expense for the nine months ended December 31, 2016 and the year ended March 31, 2016 totaled \$32,446 and \$36,917, respectively.

NOTE H - FAIR VALUE MEASUREMENTS

GCHFH uses fair value measurements to record fair value adjustments to certain assets and liabilities and to determine fair value disclosures. In accordance with ASC 820-10, GCHFH has categorized its financial instruments, based on the priority of the inputs to the valuation technique, into a three-level fair value hierarchy:

Level 1 – Financial assets and liabilities whose values are based on unadjusted quoted prices for identical assets or liabilities in an active market that GCHFH has the ability to access. These include investments that are recorded at fair value on a recurring basis and fair value measurement is based upon quoted prices, if available. Securities valued using Level 1 inputs include those traded on an active exchange and other exchange trade securities.

Level 2 – Financial assets and liabilities whose values are based on quoted prices in markets that are not active or model inputs that are observable either directly or indirectly for subsequently the full term of the asset or liability.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE H -FAIR VALUE MEASUREMENTS (CONTINUED)

Level 3 – Financial assets and liabilities whose values are based on prices or valuation techniques that require inputs that are both unobservable and significant to the overall fair value measurement.

The following table presents GCHFH’s fair value hierarchy by level for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2016 and March 31, 2016.

	As of December 31, 2016			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Donated inventory at fair value	\$ 413,370	\$ 0	\$ 0	\$413,370
Assets held for sale (Note I)	9,400	0	0	9,400
Total	<u>\$ 422,770</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$422,770</u>

	As of March 31, 2016			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Donated inventory at fair value	\$ 459,700	\$ 0	\$ 0	\$459,700
Assets held for sale (Note I)	9,400	0	0	9,400
Total	<u>\$ 469,100</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$469,100</u>

The following table presents a reconciliation of all Level 3 assets measured at fair value for the nine months ended December 31, 2016 and the year ended March 31, 2016:

	December 31, 2016	March 31, 2016
Balance at beginning of year	\$ 469,100	\$ 379,554
Inventory donations and sales, net	(46,330)	89,546
Balance at end of year	<u>\$ 422,770</u>	<u>\$ 469,100</u>

Financial assets valued using level 1 inputs are based on unadjusted quoted market prices within active markets. Financial assets valued using level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. GCHFH receives donated goods which are recorded at fair value (level 3) which is determined by a calculation which values donated materials using a method which estimates inventory based on factors such as net sales and inventory turnover. There have been no changes in valuation techniques and related inputs during the current periods.

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE I - ASSETS HELD FOR RESALE

Property and land donated to GCHFH for the purpose of resale are recorded on the balance sheet at their estimated market value. GCHFH reviews all assets held for resale (as well as property and equipment) for impairment whenever changes in circumstances indicate that the carrying value of the assets may not be recoverable.

Assets held for resale, as of December 31, 2016 and March 31, 2016 are comprised of the following:

	December 31, 2016	March 31, 2016
Donated land	<u>\$ 9,400</u>	<u>\$ 9,400</u>

NOTE J - LINE OF CREDIT

GCHFH has a line of credit with a bank. The line of credit bears interest at the Wall Street Journal Prime Rate plus .50% (4.25% and 4.00% at December 31, 2016 and March 31, 2016, respectively). The line of credit is collateralized by the ReStore inventory. This line of credit was created in 2012 when GCHFH combined an existing line of credit with a mortgage loan. Amounts outstanding under the agreement were \$103,423 and \$113,423 at December 31, 2016 and March 31, 2016, respectively.

NOTE K – NOTES PAYABLE

Long-term debt as of December 31, 2016 and March 31, 2016 is comprised of the following:

	December 31, 2016	March 31, 2016
Mortgage loan due in monthly installments of \$88, including interest at 0.001% through April 2020.	<u>\$ 3,494</u>	<u>\$ 4,281</u>
	3,494	4,281
Less: Current maturities	<u>1,050</u>	<u>787</u>
	<u>\$ 2,444</u>	<u>\$ 3,494</u>

Required annual principal payments for the next five years as of December 31, 2016 are as follows:

2017	\$ 1,050
2018	1,050
2019	1,050
2020	344
2021	0
Thereafter	<u>0</u>
Total	<u>\$ 3,494</u>

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE L – CAPITAL AND OPERATING LEASES

As of December 31, 2016 and March 31, 2016 GCHFH has capital lease agreements to finance the purchase of various vehicles used in operations. The property is capitalized at the present value of the minimum lease payments. The original capitalized cost of the property under lease purchase agreements amounted to \$240,183 and \$179,327 as of December 31, 2016 and March 31, 2016, respectively. Accumulated depreciation on the property amounted to \$106,991 and \$71,978 as of December 31, 2016 and March 31, 2016, respectively.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2016:

2017	\$ 48,140
2018	38,081
2019	29,444
2020	20,930
2021	4,287
	<hr/>
	140,882
Less: Amount representing interest	5,381
	<hr/>
Present value of minimum lease payments	<u>\$ 135,501</u>

GCHFH leases land, office space, copiers, vehicles and warehouse space through operating lease agreements which expire through January 2020.

Rental expense under these operating lease agreements was \$276,046 and \$316,686 for the nine months ended December 31, 2016 and the year ended March 31, 2016, respectively.

As of December 31, 2016, the future minimum lease commitments under operating leases are as follows:

2017	\$ 368,049
2018	298,269
2019	98,429
2020	7,577
2021	0
Thereafter	0
	<hr/>
	<u>\$ 772,324</u>

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE M – BOARD DESIGNATED FUNDS AND RESTRICTIONS ON NET ASSETS

It is the policy of the Board of Directors of GCHFH to designate appropriate sums of unrestricted net assets to ensure timely payment of certain liabilities. Since the board-designated funds resulted from an internal designation and is not donor-restricted, it is classified and reported as unrestricted net assets.

Temporarily restricted net assets at December 31, 2016 and March 31, 2016 are available for the following purposes:

	December 31, 2016	March 31, 2016
Restricted for future home builds and rehabs	\$ 232,239	\$ 268,292
Restricted for building staff capacity for neighborhood revitalization program	0	79,793
	<u>\$ 232,239</u>	<u>\$ 348,085</u>

NOTE N – RELATED PARTY TRANSACTIONS

GCHFH is an affiliate of Habitat for Humanity International. As an affiliate, GCHFH is encouraged to contribute a portion of its revenue to Habitat for Humanity International, for use in carrying out its mission across the world and as of 2014 is required to pay an annual affiliate fee.

During the nine months ended December 31, 2016 and the year ended March 31, 2016, a sustainability fee of \$25,000 was charged by Habitat for Humanity International and paid by GCHFH. As of and for the nine months ended December 31, 2016, \$12,500 was recorded as a prepaid asset and \$12,500 was expensed. As of and for the year ended March 31, 2016, \$18,750 was recorded as a prepaid asset and \$6,250 was expensed.

GCHFH has a contribution payable to Habitat for Humanity Ohio in the amount of \$2,500 and \$0 as of December 31, 2016 and March 31, 2016, respectively.

NOTE O - DONATED GOODS AND SERVICES

The value of donated goods and services included in the financial statements for the nine months ended December 31, 2016 and the year ended March 31, 2016, are as follows:

	December 31, 2016	March 31, 2016
Inventory contributed for sale at <i>ReStore</i>	\$ 1,313,798	\$ 1,803,999
Donated homes for resale	0	43,000
Donated construction materials	104,364	58,523
	<u>\$ 1,418,162</u>	<u>\$ 1,905,522</u>

GREATER CLEVELAND HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016 AND MARCH 31, 2016

NOTE O - DONATED GOODS AND SERVICES (CONTINUED)

In addition, many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific projects and administration. These services do not meet the criteria for recognition under ASC 958-605.

NOTE P – RETIREMENT PLAN

GCHFH adopted a 401(k) retirement plan effective January 1, 2016, covering all employees except those who work less than 1,000 hours in the relevant Eligibility Computation Period, as defined in the Plan Agreement. Participating employees may elect to contribute, on a tax-deferred basis or to an In-Plan Roth IRA, a portion of their compensation in accordance with section 401(k) of the Internal Revenue Code. Employees must have completed 6 months of service and be at least 21 years of age to be eligible on the entry date, which is the first date of each quarter. GCHFH provides matching contributions of 100% of each participant's elected deferral, not to exceed 3% of an employee's compensation, plus 50% of each employee's elective deferral in excess of 3% but not in excess of 5% of the participant's compensation. For the nine months ended December 31, 2016 and the year ended March 31, 2016, GCHFH's contributions, net of forfeitures, amount to \$50,097 and \$17,155, respectively.

NOTE Q - INCOME TAXES

GCHFH qualifies as a charitable organization under Section 501(c)(3) of the Internal Revenue Code, under a group exemption granted by Habitat for Humanity International, Inc. and operates as a public charity and accordingly, is exempt from income taxes.

As of April 1, 2015 and for the nine months ended December 31, 2016 and the year ended March 31, 2016, GCHFH had not engaged in any activity which management considers to be activity that could result in a loss of its 501(c)(3) IRS designation.

As well, management does not consider any of the activity of GCHFH to be considered unrelated business income that could result in income tax. For the nine months ended December 31, 2016 and the year ended March 31, 2016, there was no tax interest or penalties reflected in the statement of activities or in the statement of financial position. GCHFH is no longer subject to U.S. federal, state, and local tax examinations by taxing authorities for year before 2013.