



**BATTLE CREEK AREA
HABITAT FOR HUMANITY, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2019 AND 2018

Expertise that Counts

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Battle Creek Area Habitat for Humanity, Inc.
Battle Creek, MI 49017

We have audited the accompanying financial statements of Battle Creek Area Habitat for Humanity, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2019 and 2018, 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 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 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 Battle Creek Area Habitat for Humanity, Inc. as of June 30, 2019 and 2018, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note K to the financial statements, for the year ending June 30, 2018, Battle Creek Area Habitat for Humanity changed its method of accounting for donated inventory.

Jessup Group, P.C.

February 13, 2020

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BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2019 AND 2018

ASSETS

	2019	2018
Current assets		
Cash and cash equivalents	\$ 200,700	\$ 199,309
Amounts receivable	28,071	39,777
MBE receivable	9,738	9,738
Inventory and supplies	13,616	19,512
Donated inventory	23,630	23,884
Prepaid	3,758	-
Short term mortgage and land contract receivables, net	83,987	85,538
Total current assets	363,500	377,758
 Land and homes for development	 131,573	 93,515
 Long term mortgage and land contract receivables, net	 649,311	 736,988
 Cash - Board designated for capital expenditures	 23,321	 -
 Property and equipment, net	 1,390,736	 1,447,514
 Payroll security deposit	 18,650	 18,650
Total assets	\$ 2,577,091	\$ 2,674,425

LIABILITIES AND NET ASSETS

Current liabilities		
Accounts payable	\$ 45,338	\$ 20,945
Accrued wages	23,141	28,894
Escrow deposits and down payments	6,721	5,401
Current portion of long term liabilities	12,583	9,622
Total current liabilities	87,783	64,862
 Long term liabilities		
Mortgage payable	302,018	312,744
Less current portion	(12,583)	(9,622)
Total long term liabilities	289,435	303,122
 Total liabilities	 377,218	 367,984
 Net assets		
Without donor restrictions		
Undesignated	2,123,394	2,242,185
Designated by Board for capital expenditures	23,321	-
Total net assets	2,146,715	2,242,185
 With donor restrictions	53,158	64,256
Total net assets	2,199,873	2,306,441
Total liabilities and net assets	\$ 2,577,091	\$ 2,674,425

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2019

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Revenue and support			
Contributions and grants			
Contributions	\$ 69,196	\$ -	\$ 69,196
In-kind donations	10,196	-	10,196
Grants	27,599	52,000	79,599
ReStore donated inventory	<u>168,660</u>		<u>168,660</u>
Total contributions and grants	275,651	52,000	327,651
Program income			
Amortization of mortgage discounts	79,223	-	79,223
ReStore sales	398,127	-	398,127
Sales of completed homes	76,468	-	76,468
Ramps, home repairs and other income	<u>68,049</u>	-	<u>68,049</u>
Total program income	621,867	-	621,867
Other income			
Fundraising and special events	51,216	-	51,216
Interest income	2,160	-	2,160
Loss on asset disposals	<u>(1,599)</u>	-	<u>(1,599)</u>
Total other income	<u>51,777</u>	-	<u>51,777</u>
Total revenue and support	949,295	52,000	1,001,295
Net assets released from restrictions	<u>63,098</u>	<u>(63,098)</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	1,012,393	(11,098)	1,001,295
Expenses			
Program services	868,686	-	868,686
Support services	<u>239,177</u>	-	<u>239,177</u>
Total expenses	<u>1,107,863</u>	-	<u>1,107,863</u>
Change in net assets	(95,470)	(11,098)	(106,568)
Net assets, beginning of year	<u>2,242,185</u>	<u>64,256</u>	<u>2,306,441</u>
Net assets, end of year	<u>\$ 2,146,715</u>	<u>\$ 53,158</u>	<u>\$ 2,199,873</u>

See independent auditors' report and notes to financial statements

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and support			
Contributions and grants			
Contributions	\$ 86,446	\$ -	\$ 86,446
In-kind donations	22,732	-	22,732
Grants	59,969	64,256	124,225
ReStore donated inventory	195,260	-	195,260
Total contributions and grants	<u>364,407</u>	<u>64,256</u>	<u>428,663</u>
Program income			
Amortization of mortgage discounts	71,955	-	71,955
ReStore sales	451,215	-	451,215
Sales of completed homes	110,000	-	110,000
Ramps, home repairs and other income	70,062	-	70,062
Total program income	<u>703,232</u>	<u>-</u>	<u>703,232</u>
Other income (expense)			
Fundraising and special events	67,339	-	67,339
Interest income	2,680	-	2,680
Gain on sale of mortgage receivables	30,734	-	30,734
Total other income	<u>100,753</u>	<u>-</u>	<u>100,753</u>
Total revenue and support	<u>1,168,392</u>	<u>64,256</u>	<u>1,232,648</u>
Net assets released from restrictions	<u>40,190</u>	<u>(40,190)</u>	<u>-</u>
Total revenue, support, and net assets released from restrictions	1,208,582	24,066	1,232,648
Expenses			
Program services	968,685	-	968,685
Support services	265,236	-	265,236
Total expenses	<u>1,233,921</u>	<u>-</u>	<u>1,233,921</u>
Change in net assets before change in accounting principle	(25,339)	24,066	(1,273)
Change in accounting principle	<u>23,884</u>	<u>-</u>	<u>23,884</u>
Net assets, beginning of year - restated	<u>2,243,640</u>	<u>40,190</u>	<u>2,283,830</u>
Net assets, end of year	<u>\$ 2,242,185</u>	<u>\$ 64,256</u>	<u>\$ 2,306,441</u>

See independent auditors' report and notes to financial statements

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2019

	<u>Program Services</u>			<u>Support Services</u>			Total Expenses
	Discount on Mortgage Originations	Construction and Rehabilitation	ReStore	Total Program Services	Management and General	Fundraising	
Staff related							
Wage related, taxes and benefits	\$ -	\$ 129,444	\$ 154,996	\$ 284,440	\$ 141,699	\$ 5,099	\$ 431,238
Conferences and training	-	1,380	2,782	4,162	2,423	1,293	7,878
Facility related							
Insurance	-	16,417	12,064	28,481	1,586	-	30,067
Repairs and maintenance	-	-	-	-	4,123	-	4,123
Utilities and phone	-	4,288	26,944	31,232	11,301	-	42,533
Program related							
Advertising and promotion	-	401	8,462	8,863	-	2,907	11,770
Contract and professional fees	-	-	10,595	10,595	11,309	-	21,904
Cost of sales	-	114,779	45,549	160,328	-	-	160,328
Cost of sales of donated inventory	-	-	168,660	168,660	-	-	168,660
Depreciation and amortization	-	3,982	37,530	41,512	13,667	-	55,179
Discount on mortgages issued	-	-	-	-	-	-	-
Dues, subscriptions, and fees	-	16,763	4,103	20,866	4,873	-	25,739
Fund development expense	-	-	-	-	-	6,927	6,927
Mortgage interest	-	-	19,667	19,667	47	-	19,714
Other expenses	-	3,559	798	4,357	6,072	-	10,429
Postage and shipping	-	54	-	54	820	-	874
Repairs and maintenance	-	-	16,755	16,755	-	-	16,755
Supplies and equipment contracts	-	42,395	5,787	48,182	19,173	4,743	72,098
Tithe	-	4,400	-	4,400	-	-	4,400
Transportation	-	6,365	9,767	16,132	1,115	-	17,247
Total functional expenses	\$ -	\$ 344,227	\$ 524,459	\$ 868,686	\$ 218,208	\$ 20,969	\$1,107,863

See independent auditors' report and notes to financial statements

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2018

	<u>Program Services</u>			<u>Support Services</u>			<u>Total Expenses</u>
	<u>Discount on Mortgage Originations</u>	<u>Construction and Rehabilitation</u>	<u>ReStore</u>	<u>Total Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	
Staff related							
Wage related, taxes and benefits	\$ -	\$ 132,016	\$ 128,426	\$ 260,442	\$ 141,925	\$ 19,251	\$ 421,618
Conferences and training	-	2,272	2,413	4,685	7,755	427	12,867
Facility related							
Insurance	-	13,358	11,592	24,950	947	-	25,897
Repairs and maintenance	-	-	-	-	1,581	-	1,581
Utilities and phone	-	4,790	26,931	31,721	10,411	-	42,132
Program related							
Advertising and promotion	-	166	6,332	6,498	-	4,503	11,001
Contract and professional fees	-	100	45,160	45,260	15,241	-	60,501
Cost of sales	-	160,984	57,105	218,089	-	-	218,089
Cost of sales of donated inventory	-	-	195,260	195,260	-	-	195,260
Depreciation and amortization	-	4,333	39,031	43,364	13,317	-	56,681
Discount on mortgages issued	26,137	-	-	26,137	-	-	26,137
Dues, subscriptions, and fees	-	17,253	4,450	21,703	4,717	-	26,420
Fund development expense	-	-	-	-	-	15,436	15,436
Mortgage interest	-	-	19,118	19,118	41	-	19,159
Other expenses	-	2,630	1,268	3,898	8,225	-	12,123
Postage and shipping	-	-	18	18	1,106	-	1,124
Repairs and maintenance	-	-	7,087	7,087	-	-	7,087
Supplies and equipment contracts	-	29,740	8,780	38,520	18,840	885	58,245
Tithe	-	4,200	-	4,200	-	-	4,200
Transportation	-	3,736	13,999	17,735	521	107	18,363
Total functional expenses	\$ 26,137	\$ 375,578	\$ 566,970	\$ 968,685	\$ 224,627	\$ 40,609	\$ 1,233,921

See independent auditors' report and notes to financial statements

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2019 AND 2018

	2019	2018
Cash flows from operating activities		
Change in net assets	\$ (106,568)	\$ 22,611
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Change in accounting principle	-	(23,884)
Donated inventory	254	
Depreciation and amortization	55,179	56,681
Discount on mortgages issued	-	26,137
Amortization of mortgage discounts	(79,223)	(71,955)
Gain on disposal of property and equipment	1,599	-
Gain on sale of mortgage receivables	-	(30,734)
Designated cash for capital expenditures	23,321	
Decrease (increase) in:		
Amounts receivable	11,706	(27,810)
MBE receivable	-	(497)
Mortgages and land contract receivables	168,451	68,563
Inventory and supplies	5,896	(2,126)
Prepaid	(3,758)	-
Land and homes for development	(38,058)	(35,476)
Increase (decrease) in:		
Accounts payable and accrued expenses	18,640	8,398
Escrow deposits	1,320	(1,876)
Net cash provided by (used in) operating activities:	58,759	(11,968)
Cash flows from investing activities		
Proceeds from sale of mortgage receivables	-	89,354
Acquisition of property and equipment	-	(5,782)
Net cash provided by investing activities:	-	83,572
Cash flows from financing activities		
Board designation for capital expenditures	(23,321)	-
Payments on short term debt	-	(6,000)
Payments on long term debt	(10,726)	(59,455)
Net cash used in financing activities:	(34,047)	(65,455)
Net increase in cash and cash equivalents	24,712	6,149
Cash and cash equivalents, beginning of year	199,309	193,160
Cash and cash equivalents, end of year	\$ 224,021	\$ 199,309
Reconciliation of cash and cash equivalents to the statement of financial position:		
Cash and cash equivalents	\$ 200,700	\$ 199,309
Cash - Board designated for capital expenditures	23,321	-
Total cash and cash equivalents	\$ 224,021	\$ 199,309
Supplemental disclosure of cash flow information:		
Interest paid during the year	\$ 19,714	\$ 19,159

See independent auditors' report and notes to financial statements

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE A - NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Battle Creek Area Habitat for Humanity, Inc. (the "Organization") is a nonprofit corporation organized in Michigan in 1989 for the purpose of providing safe, decent, affordable housing for low-income families living in sub-standard housing in Calhoun County. The Organization provides and coordinates construction of new homes, renovation of existing homes and owns and operates a ReStore, where homeowners can buy construction materials – new and used – that are donated to the Organization. As part of its mission, the Organization provides minor home repairs and ramps for low income homeowners and salvages many usable materials from homes that are going to be demolished.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted 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 revenue, expenses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Fair Values

The Organization estimates that the fair value of all financial instruments does not differ materially from the aggregate carrying value of its financial instruments recorded on the statement of financial position.

Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with a maturity of three months or less to be cash equivalents.

Amounts Receivable

Amounts receivable consist primarily of amounts due from individuals from the critical home repair program. The Organization considers amounts receivable to be fully collectible; accordingly, no allowance account has been established. If an amount becomes uncollectible, it will be charged to operations when that determination is made. Collections on amounts previously written off are included in other income as received.

MBE Receivable

MBE receivable consists of goods and services purchased through a bartering network. The MBE balance can be either an asset or a liability at any given time. An asset indicates that the Organization has received less goods than offered back through the network. A liability indicates that the Organization has received more goods than offered back through the network. The balance has no due date and will be reduced through future goods and services sold or purchased through the bartering network by the Organization. If the Organization discontinues participation in MBE or ceases operations, the Organization would be required to satisfy any liability balance through the transfer or receipt of assets to members of the MBE network.

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Inventory and Supplies

Substantially all inventory at the ReStore is donated and the Organization records donated inventory based on one half the selling price of the item. The balance of inventory and supplies on the statement of financial position consists of materials purchased to stock the ReStore as well as building materials to be used to rehabilitate homes to be sold. Purchased inventory is valued at the lower of cost or market, with costs being determined on a first-in, first-out basis.

Land and Homes for Development

Land and homes for development consist of donated property and materials as well as actual purchased materials and other costs incurred in conjunction with home construction. Donated property and materials are recorded at fair market value at the time of the donation. A gain or loss on the sale of the home is recognized when the home is sold.

Property and Equipment

Property and equipment over \$2,500 are recorded at cost when purchased or at estimated fair value at the date of donation and are depreciated on a straight-line basis over their estimated useful lives, which are 5 - 7 years for equipment and 20 - 40 years for buildings and improvements. Costs of maintenance and repairs are charged to expense when incurred.

Escrow Deposits

Escrows payable represent funds held on deposit by the Organization from homeowners. The escrow amounts are determined approximately on an annual basis and are deposited monthly by the homeowners and consist of amounts held for property taxes, property insurance, and repairs and maintenance.

Contributions

Contributions of cash and other assets, including unconditional promises to give in the future, are reported as revenue when received, measured at fair value, and are reported as an increase in net assets. Contributions without donor-imposed restrictions and contributions with donor-imposed time or purpose restrictions that are met in the same period as the gift are both reported as unrestricted support. Other restricted gifts are reported as restricted support and net assets with donor restrictions.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

Donated Services

A substantial number of volunteers have made significant contributions of their time to the Organization's programs and services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill.

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

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

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net assets without donor restrictions – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.

Net assets with donor restrictions – Net assets subject to donor- (or certain grantor-) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. The Organization reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3). Accordingly, these financial statements do not include a provision for income taxes.

Functional Allocation of Expenses

The costs of program and supporting services activities have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Certain expenses are attributable to more than one program or supporting function and are allocated on a reasonable basis that is consistently applied. The expenses that are allocated are certain compensation and benefits, which are allocated based on estimates of time and effort.

Reclassifications

Certain reclassifications have been made to prior year amounts to conform with the current presentation.

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE B – AVAILABLE RESOURCES AND LIQUIDITY

The table below presents financial assets available for general expenditures within one year at June 30:

	<u>2019</u>	<u>2018</u>
Cash and cash equivalents	\$ 224,021	\$ 199,309
Amounts receivable	28,071	39,777
MBE receivable	9,738	9,738
Short term mortgage and land contract receivables	<u>155,137</u>	<u>156,706</u>
Total financial assets	416,967	405,530
Donor restricted funds	(53,158)	(64,256)
Board designated for capital expenditures	<u>(23,321)</u>	<u>-</u>
Financial assets not available to meet cash needs for general expenditures within one year	<u>(76,479)</u>	<u>(64,256)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 340,488</u>	<u>\$ 341,274</u>

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition to the availability of cash and cash equivalents to meet general expenditures, the Organization anticipates collecting sufficient revenue to sustain its mission of affordable housing. The Organization must raise contributions designated for home rehabilitation equal to 80% of the budgeted construction costs before work can start on a home.

Short term mortgages and land contract receivables are tracked as part of the annual cash flow process. The revenue from these sources are received monthly as pay back for services or properties on the Organizations properties listing. Refer to the statement of cash flows which identifies the sources and uses of the Organization's cash and positive cash generated by operations for the fiscal year 2019 and 2018.

NOTE C - SIGNIFICANT CONCENTRATIONS OF CREDIT RISK

Credit risk for long term mortgage and land contract receivable is concentrated because substantially all the balances are receivable from individuals located within the same geographic region.

NOTE D - MORTGAGE AND LAND CONTRACT RECEIVABLES

Homes sold to eligible families are financed by Battle Creek Area Habitat for Humanity, Inc. through interest-free mortgages granted to the families. Mortgage payments are based on a 6-30 year amortization of the mortgage. In addition, the families sign a 10-year promissory note with penalty restrictions as to sale of the home prior to 10 years of home ownership. Monthly mortgage principle payments range from \$57 to \$452. Because the mortgages and land contracts are secured by the deeds of trust on the respective properties, management believes no allowance for doubtful mortgages is necessary.

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE D - MORTGAGE AND LAND CONTRACT RECEIVABLES (CONTINUED)

Furthermore, the Organization outsourced the administration and servicing of its mortgage receivables to Habitat for Humanity Michigan Fund. Mortgage discounts are calculated by imputing current value on the interest-free mortgages using the prevailing market rates provided by Habitat for Humanity International for low-income housing at the inception of the mortgage. These rates range from 6% to 10%. Amortization of the discount is reported in the Statement of Activities as amortization of mortgage discounts. Land Contracts include amounts held in exchange for land and homes deemed unsuitable for Habitat homes. These contracts range in length from one to five years and are held at interest rates varying from 0.00% to 6.00%, depending on the eligibility of the purchaser.

Long term mortgage and land contract receivables consist of the following at June 30:

	<u>2019</u>	<u>2018</u>
Land contracts	\$ 112,390	\$ 118,344
Gross mortgages receivable	1,174,521	1,337,018
Less unamortized mortgage discounts	<u>(553,613)</u>	<u>(632,836)</u>
Net mortgages receivable	620,908	704,182
Current portion of mortgage and land contract receivables, net	<u>(83,987)</u>	<u>(85,538)</u>
Total long term receivables	<u>\$ 649,311</u>	<u>\$ 736,988</u>

The following is a summary of home building activity for the year ended June 30:

	<u>2019</u>	<u>2018</u>
Homes under construction - beginning	3	2
New homes started during the year	2	3
Homes sold during the year	<u>(2)</u>	<u>(2)</u>
	<u>3</u>	<u>3</u>

NOTE E - PROPERTY AND EQUIPMENT

At June 30, 2019 and 2018 the cost of property and equipment is summarized as follows:

	<u>2019</u>	<u>2018</u>
Land	\$ 140,000	\$ 140,000
Buildings and improvements	1,413,797	1,413,797
Equipment	77,251	94,889
Vehicles	28,796	28,796
Total cost	1,659,844	1,677,482
Less accumulated depreciation and amortization	<u>(269,108)</u>	<u>(229,968)</u>
Net property and equipment	<u>\$ 1,390,736</u>	<u>\$ 1,447,514</u>

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE F - LINE OF CREDIT

The Organization has a \$100,000 line of credit, secured by all assets and real estate of 595 North Avenue, to a bank bearing interest at 5.25% at June 30, 2018, due on demand. At June 30, 2019 and 2018 the outstanding balance on the line of credit was \$0.

NOTE G - OPERATING LEASE

The Organization had a 60-month non-cancelable copier lease that expires May 2020. The lease agreement calls for monthly payments of \$468 plus fees. Payments under this agreement totaled \$2,977 and \$7,179 for June 30, 2019 and 2018, respectively. The lease was changed during fiscal year ended June 30, 2019 and a new agreement was established to upgrade equipment and add additional equipment. The new lease agreement is for monthly payments of \$832 through December 2023. Payments under this agreement totaled \$5,143 for June 30, 2019. Future minimum lease payments are \$9,985 for years ending June 30, 2020-2023 and \$4,993 for year ending June 30, 2023.

NOTE H - MORTGAGE PAYABLE

Mortgage payable at June 30 is as follows:

	<u>2019</u>	<u>2018</u>
Bank loan, payable in monthly installments of \$2,647, including interest at 6.5%, collateralized by all assets at June 30, 2019 and 2018. Interest on the note balance at June 30, 2019 and 2018 is based on the Daily Adjusted LIBOR rate. A balloon payment of approximately \$246,000 is due December 2023. The mortgage has a capitalized cost of \$500,000. Accumulated depreciation in the statement of financial position included \$55,118 and \$45,245 relating to the mortgage at June 30, 2019 and 2018, respectively. Depreciation expense reported in the statements of activities included \$9,872 for June 30, 2019 and 2018.	\$ 302,018	\$ 312,744
Current portion	(12,583)	(9,622)
Long term mortgage payable	<u>\$ 289,435</u>	<u>\$ 303,122</u>

Maturities of long term debt for the next five years are as follows:

<u>Year ending June 30,</u>	
2020	\$ 12,583
2021	13,345
2022	14,239
2023	15,192
2024	246,659
Total	<u>\$ 302,018</u>

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE I - NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	<u>2019</u>	<u>2018</u>
Home rehabilitation costs	\$ 52,000	\$ 36,501
Program service costs	-	5,000
Senior - ramp program	768	18,255
Thrivent - non build project	-	2,500
Purchase of tools	390	2,000
Total net assets with donor restrictions	<u>\$ 53,158</u>	<u>\$ 64,256</u>

NOTE J - RELATED PARTIES

The Organization is an affiliate of Habitat for Humanity International, US office and made payments to them for: tithes, annual stewardship and for purchases of inventory for the ReStore. Total payments were \$13,191 and \$19,442 for the years ending June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018 related accounts payable were \$0. The Organization also received grant funding of \$3,500 and \$20,000 for the years ending June 30, 2019 and 2018, respectively. At June 30, 2019 and 2018 related accounts receivable were \$0.

The Organization has a land contract receivable of \$40,069 and \$42,748 at June 30, 2019 and 2018, respectively, to a member of the board, whose term ended during June 30, 2019.

NOTE K - CHANGE IN ACCOUNTING PRINCIPLE

For the year ending June 30, 2018, the Organization valued its donated inventory received based on one half of the marked selling price of the item. In prior years, the Organization did not perform a physical count of inventory to determine quantities on hand or value the donated inventory. In accordance with FASB ASC 250-10-45-9, it is impractical to determine the cumulative effect of applying this change in accounting principle to any prior period, and therefore, the Organization has adopted the change in valuing inventory prospectively. The value of donated items sold at the ReStore are valued using the same method as described above. Since a beginning inventory value was not determined, the Organization recorded an equal amount of revenue and expense for the value of donated materials received and related cost of goods sold and recorded a change in accounting principle for the ending inventory value in the Statement of Activities.

NOTE L - PRIOR PERIOD ADJUSTMENT

A prior period adjustment resulting in an overstatement of previously reported net assets without donor restrictions was discovered during the previous year. Accordingly, an adjustment of \$40,190 was made during 2018 to decrease net assets without donor restrictions and increase net assets with donor restrictions.

BATTLE CREEK AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

NOTE M - SUBSEQUENT EVENTS

The Organization has evaluated events and transactions for potential recognition or disclosure through February 13, 2020, which is the same date the financial statements were available to be issued.

