

GLOUCESTER COUNTY HABITAT FOR HUMANITY

**FINANCIAL STATEMENTS FOR THE YEAR
ENDED JUNE 30, 2015 AND**

INDEPENDENT AUDITORS' REPORT

Ditmars, Perazza & Co.

CERTIFIED PUBLIC ACCOUNTANT

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Independent Auditor's Report

**Gloucester County Habitat for
Humanity, Inc.:**

December 2, 2015

To the Officers and Directors:

Report on Financial Statements

We have audited the accompanying financial statements of **Gloucester County Habitat for Humanity Inc.**, which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, of functional expenses, of cash flows for the year then ended, and the related notes of 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 the internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the organization'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 organization'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 the **Gloucester County Habitat for Humanity, Inc.** as of June 30, 2015, and the results of its operations and its cash flows for the year that ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the **Gloucester County Habitat for Humanity, Inc.'s** 2014 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 3, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Ditmars, Perazza & Co.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
STATEMENT OF FINANCIAL POSITION
FOR THE YEAR ENDED JUNE 30, 2015**

(With summarized totals for 2014)

	<u>2015</u>	<u>2014</u>
ASSETS:		
Cash and cash equivalents	\$ 207,768	\$ 74,241
Mortgages receivable	963,563	1,038,669
Unamortized discount on mortgage	(603,080)	(672,038)
Mortgages receivable - Net	<u>360,483</u>	<u>366,631</u>
Grants receivable	41,329	99,015
Prepaid expenses - SOSI	15,000	
Other receivables and assets	7,068	5,296
Construction work in progress	200,313	213,904
Property and equipment net of depreciation of \$ 102,833	337,802	351,371
TOTAL ASSETS	<u><u>\$ 1,169,763</u></u>	<u><u>\$ 1,110,458</u></u>
LIABILITIES AND NET ASSETS:		
Liabilities		
Account payable	\$ 5,824	\$ 24,580
Escrow deposits/advances - net	(28,697)	(20,314)
Refundable advances - grants	32,406	80,155
International Habitat - Armenia	17,000	-
Mortgage payable - GCSF	416,503	432,020
Total Liabilities	<u>443,036</u>	<u>516,441</u>
Net Assets:		
Unrestricted net assets	726,727	594,017
Total Net Assets	<u>726,727</u>	<u>594,017</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,169,763</u></u>	<u><u>\$ 1,110,458</u></u>

The accompanying footnotes are an integral part of the financial statements.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2015**

(With summarized totals for 2014)

SUPPORT AND REVENUE:	Unrestricted	Totals 2015	Totals 2014
Direct Public Support			
Individuals, business and other	\$ 38,972	\$ 38,972	\$ 14,794
United Way	4,241	4,241	795
Grants	116,113	116,113	197,033
Land donations	30,400	30,400	113,700
Income from Restore sales - net	134,907	134,907	68,349
Special events	53,777	53,777	23,886
Sale of homes to partner families	257,500	257,500	234,500
Mortgage settlement income	25,000	25,000	-
Investment income	55	55	16
Other income	75	75	9,610
Mortgage interest discount amortization	68,959	68,959	25,267
	-	-	-
TOTAL SUPPORT AND REVENUE	<u>729,999</u>	<u>-</u>	<u>729,999</u>
EXPENSES:			
Program Services	430,813	430,813	467,469
Administrative	132,158	132,158	124,645
Fund Raising	34,318	34,318	22,061
TOTAL EXPENSES	<u>597,289</u>	<u>-</u>	<u>614,175</u>
CHANGE IN NET ASSETS	132,710	-	73,775
NET ASSETS, BEGINNING OF YEAR:	594,017		520,242
NET ASSETS, END OF YEAR	<u>\$ 726,727</u>	<u>\$ -</u>	<u>\$ 594,017</u>

The accompanying footnotes are an integral part of the financial statements.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2015**

(With summarized totals for 2014)

	Program Services	Management & General	Fund Raising	Totals 2015	Totals 2014
Construction costs - indirect	\$ 22,645			\$ 22,645	\$ 18,583
Cost of homes sold to partner families	245,222			245,222	252,111
Home sale adjustment	111,460			111,460	54,500
Mortgage discount expense	-			-	71,154
Affiliate expenses	10,000			10,000	5,475
Insurance	18,093	\$ 13,981		32,074	24,477
Bad debt expenses - partner families	283			283	21,697
Equipment rental and small tools	1,471			1,471	5,062
Other program				-	115
Personnel costs - Operations	8,697	85,242	\$ 12,058	105,997	101,507
Books and subscriptions	925			925	632
Office expenses		2,702		2,702	3,842
Professional services		5,459		5,459	2,923
Penalties				-	5,800
Computer expenses		2,975		2,975	2,100
Telephone & fax	350	2,800	350	3,500	3,062
Travel & meals		3,509		3,509	1,835
Utilities	2,324	2,145		4,469	8,242
Depreciation	928	3,343		4,271	4,271
Advertising	1,487			1,487	731
Mortgage interest		5,776		5,776	5,977
Vehicle	4,404	3,197		7,601	5,455
Community relations	1,241			1,241	901
Postage and freight		1,029		1,029	863
Special events			21,910	21,910	12,860
Miscellaneous	1,283			1,283	-
	<u>\$ 430,813</u>	<u>\$ 132,158</u>	<u>\$ 34,318</u>	<u>\$ 597,289</u>	<u>\$ 614,175</u>

The accompanying footnotes are an integral part of the financial statements.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2015**

	2015
FROM OPERATING ACTIVITIES:	
Change in Net Assets	\$ 132,710
Add - depreciation	18,570
Mortgage payments	75,106
Change in grants and other receivables	55,914
Change in prepaid expenses	(15,000)
Change accounts payable	(18,756)
Change in escrow deposits	(8,383)
Change in refundable advances	(47,749)
Change in International Habitat Projects	17,000
Cash Flows from (used) in Operating Activities	209,412
FROM INVESTING ACTIVITIES:	
Mortgage discount amortization	(68,958)
Cost of homes sold - net	(102,870)
Proceeds from the sale of homes to partner families	111,460
Property addition	-
Cash Flows (used in) fom Investing Activities	(60,368)
FROM FINANCING ACTIVITIES:	
Payments of mortgage principle	(15,517)
Payment of line of credit	-
Cash Flows used in Financing Activities	(15,517)
CHANGE IN CASH AND CASH EQUIVALENTS	133,527
BEGINNING CASH AND CASH EQUIVALENTS	74,241
ENDING CASH AND CASH EQUIVALENTS	\$ 207,768

The accompanying footnotes are an integral part of the financial statements.

**GLOUCESTER COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2015**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose

Gloucester County Habitat for Humanity (GCHH) is a not-for-profit organization affiliated with Habitat International, Inc. Habitat acquires land and buildings for construction and renovation into affordable housing. Materials and labor are largely contributed and volunteered. In addition, the qualified partner family must provide volunteer labor as their sweat equity. GCHH assists the partner family in obtaining a mortgage on the property.

Adoption of FASB Accounting Standards Codification

The Financial Accounting Standards Board ("FASB") issued FASB Accounting Standards Codification ("ASC") effective for financial statements issued for interim and annual periods ending after September 15, 2009. The ASC is an aggregation of previously issued authoritative accounting principles generally accepted in the United States of America ("GAAP") in one comprehensive set of guidance organized by subject area. In accordance with the ASC, references to previously issued accounting standards have been replaced by ASC references. Subsequent revisions to GAAP will be incorporated into the ASC through Accounting Standards Updates (ASU). The ASC did not have an effect on GCHH's results of operations or financial condition.

Basis of Presentation

The financial statement presentation follows the recommendation of the Financial Accounting Standards Board. Under these standards, GCHH 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.

Cash and Cash equivalents

GCHH considers all highly liquid investments with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents consist of checking accounts and a money market account.

Mortgages receivable

Mortgages receivable consists of non-interest bearing mortgages which are secured by real estate and receivable in monthly installments over the life of the mortgage.

Contributions

Unconditional promises to give are recognized as revenue when the underlying promises are received by GCHH. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time

restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Donated Services and Materials

Donated services are recognized as contributions in accordance with standards of the Financial Accounting Standards Board, if the services (a) create or enhance non financial assets or (b) require specialized skills, as performed by people with those skills, and would otherwise be purchased by GCHH. GCHH does not consider that donated services by individuals with specialized skills to meet this criteria in that they would generally not be required to purchase the services. In addition a substantial number of volunteers have made significant contributions of their time to GCHH's program and supporting services. The value of this contributed time is not reflected in these financial statements since it does not meet the above criteria.

GCHH also receives donated building materials which are used in home construction. These donations are generally not significant and therefore are not included in the accompanying statements.

Transfers to Homeowners

Sales to homeowners are recorded at the gross mortgage amount. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount is recognized as interest income over the term of the mortgage.

Construction in Progress/ Project Income

Direct costs associated with the renovation of properties are capitalized. When the property is sold the related costs are offset against the sales price and the excess revenues or expenses are reflected in the statement of activities. Any excess revenues from the sale of a property are used to offset overhead costs and to provide for the continuation of GCHH's mission. When the property is sold the cost of construction is reflected in the Statement of Activities.

Property and Depreciation

Property and equipment are stated at cost. Depreciation is provided using the straight line method over the estimated useful lives of the related asset.

Income Taxes

GCHH has received exemption from income taxes under Section 501 (c) (3) of the Internal Revenue Code and qualifies as a public charity.

Refundable Advances – Grants

GCHH treats any grant funds that have not been earned and could be returned to the grantor if not spent as refundable advances – grants in the accompanying Statement of Financial Position.

Estimates in the Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Subsequent Events

The Financial Accounting Standards Board has issued a standard that applies to annual financial periods ending after June 15, 2009. These standards establish principles setting forth the period after the balance sheet date during which management shall evaluate events and transactions that may occur for potential recognition or disclosure in the financial statements. For the purposes of this accounting standard, the Organization has evaluated subsequent events through December 2, 2015.

Fair Value Measurements

The Organization has adopted the Financial Accounting Standards Board's standards that apply to all assets and liabilities that are being measured and reported on a fair value basis. Under the standards new disclosures are required that establish a framework for measuring fair value in accounting principles generally accepted in the United States of America, and expands disclosure about fair value measurements. The standards enable the reader of the financial statements to access the inputs used to develop those measurements by establishing a hierarchy for ranking the quality and reliability of the information used to determine fair values.

The standards require that assets and liabilities carried at fair value be classified and disclosed in one of the following three categories:

1. Level 1: Quoted market prices in active markets for identical assets or liabilities
2. Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
3. Level 3: Unobservable inputs that are not corroborated by market data.

In determining the appropriate levels, the Organization performs a detailed analysis of the assets and liabilities that are subject to the Standards.

The carrying amounts of financial instruments including cash and cash equivalents, receivables, prepaid and payables approximates fair value due to the short maturity of these instruments.

Income Taxes

In June 2006 the Financial Accounting Standards Board issued FIN 48, Accounting for Uncertainty in Income Taxes, which prescribes how an entity should measure, recognize, present and disclose in its financial statements tax positions that an organization has taken or expects to take on its information returns. FIN 48 is effective for years beginning after December 31, 2008 for nonpublic entities.

The Organization regularly reviews and evaluates its tax positions taken in previously filed information returns with regard to issues affecting its tax exempt status, unrelated business income and related matters. Based on the Organization's evaluation of their positions relating to any relevant matters no tax benefits or liabilities are required to be recognized in accordance with FIN 48.

Advertising

Advertising costs are expensed as incurred.

2. MORTGAGE RECEIVABLE

The mortgage receivable balance at June 30, 2015 consists of 12 loans on properties developed by GCHH. These loans are non interest bearing loans with original maturities of 30 years. The balance receivable for these loans was \$ 980,473 at June 30, 2015.

The amount of principal that will be collected on the above mortgages is approximately \$ 36,000 per year for each of the next five years.

Effective July 1, 2013 GCHH has contracted with a service provider to service the loans and to collect the payments and to pay the escrow. The escrow advances balance of \$ 28,697 at June 30, 2015 represents escrow advances for the two loans serviced by GCHH as well as several of the loans serviced by the service provider.

3. CONSTRUCTION IN PROGRESS

As of June 30, 2015 GCHH was in the process of renovating a number of properties for future sales under the program.

4. DISCOUNT ON MORTGAGES RECEIVABLE

GCHH accounts for their mortgages in accordance with the Habitat for Humanity International's U.S. Affiliate Accounting Policy Manual. Under this guide the non interest bearing mortgages are discounted to their present value at the time the mortgage is issued. The discounted amount is amortized over the life of the mortgage using a imputed interest rate, averaging 8 % on a straight line basis.

The following reflects the activity in the related accounts for the year ended June 30, 2015:

Unamortized Discount on Mortgages:

Balance at June 30, 2014	\$ 672,039
Discount on Mortgages Issued in 2015	-
Mortgage Discount Amortization for 2015	<u>(68,959)</u>
Balance at June 30, 2015	<u>\$ 603,080</u>

5. ZERO EQUIVALENT MORTGAGES

Commencing in 2012 GCHH entered into an arrangement with several local financial institutions to provide mortgages to their partner families for the purchase of the completed home. The mortgages are discounted by the financial institution to achieve a monthly payment that would be the equivalent of the amount of the payment if GCHH took back a non interest bearing mortgage. As a further protection for GCHH they enter into a second mortgage (silent second) with the partner family that is the difference between the sales price of the home and amount of the financial institutions mortgage. If the property were sold, GCHH would have the right to receive this difference. Two mortgage was closed in 2015 under this arrangement with silent second mortgages of \$ 111,460. This amount is treated as a Home Sale Adjustment in the accompanying financial statements.

6. MORTGAGE PAYABLE – INVESTORS BANK

GCHH has entered into a mortgage with a local financial institution to finance the acquisition and renovation of the property that they operate from in Pitman, NJ. The mortgage is payable in monthly installments of \$ 3,358.36 including interest computed at the rate of 5.75 %. The original loan date is 3/25/2011 and the maturity date is 4/1/2031. Their property in Pitman is secured for the loan. Future minimum principle payments for the next five years are as follows:

June 30, 2016	\$16,888
June 30, 2017	17,886
June 30, 2018	18,942
June 30, 2019	20,142
June 30, 2020	21,245

7. LINE OF CREDIT

In March 2011 GCHH entered into a line of credit arrangement with a local financial institution in the amount of \$ 100,000. Interest on any outstanding balance is computed using a variable NY prime rate as published in the Wall Street Journal. As of June 30, 2015 no amount is outstanding under the loan.

8. FUNCTIONAL ALLOCATION OF EXPENSES

Expenses are apportioned to program, management and general and fund raising functions based on specific or estimated allocations.

9. TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL

GCHH annually remits a portion of its unrestricted contributions (excluding in kind contributions) to Habitat for Humanity International. GCHH remitted to Habitat for Humanity International a SOSI (Stewardship and Organization Sustainability Initiative) fee of \$ 10,000 for additional support provided by them. This amount is included in direct program costs in the Statement of Activities.

10. RESTORE PROGRAM

In a prior year GCHH commenced a "ReStore Program". Under this program GCHH sells donated building materials and household items to the public at retail. Income that is received from this program is used to support GCHH's building program. Financial results of the ReStore operation is presented net of direct expenses in the accompanying statement of activities. The mission of the ReStore operation is to offset the management & general expenses of the Organization.

11. CALCULATION OF OVERHEAD RATIO

The overhead ratio is calculated as follows. In computing the ratio, GCHH deducts the Net Income from the Restore Program from both the numerator and denominator, as the purpose of the Restore Program is to offset the administrative expenses of the Organization.

Numerator:

Administrative Expenses	\$ 132,158
Fund Raising Expenses	34,318
Less – Net Income from Restore Program	<u>(134,907)</u>
Total Numerator	31,569

Denominator:

Total Unrestricted Support and Revenue	\$ 595,092
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OVERHEAD RATIO 5.3 %

12. COMPARATIVE FINANCIAL INFORMATION

The financial statements include certain prior year summarized comparative information in total. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the GCHH'S financial statements for the year ended June 30, 2015.