



**HABITAT FOR HUMANITY OF KANSAS CITY, INC.**

**FINANCIAL STATEMENTS**

Year Ended June 30, 2017





## INDEPENDENT AUDITORS' REPORT

To the Board of Directors

### **HABITAT FOR HUMANITY OF KANSAS CITY, INC.**

We have audited the accompanying financial statements of Habitat for Humanity of Kansas City, Inc. ("Habitat"), which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and change in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

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

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

#### ***Auditors' Responsibility***

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' 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 Habitat'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 Habitat's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

#### **Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Kansas City, Inc. as of June 30, 2017, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads "Mayer Hoffman McCann P.C." in a cursive script.

Kansas City, Missouri  
November 30, 2017



**HABITAT FOR HUMANITY OF KANSAS CITY, INC.**

**STATEMENT OF FINANCIAL POSITION**

June 30, 2017

**ASSETS**

	<u>Affiliate</u>	<u>ReStore</u>	<u>Total</u>
<b>CURRENT ASSETS</b>			
Cash	\$ 2,422,163	\$ -	\$ 2,422,163
Investments	8,123	-	8,123
Accounts receivable	81,482	-	81,482
Unconditional promises to give	39,000	-	39,000
Merchandise inventory	-	799,273	799,273
Property held for sale and development	400,768	-	400,768
Construction in progress, net	849,411	-	849,411
Current portion of non-interest bearing mortgage loans, net	722,741	-	722,741
Prepaid expenses	60,135	49,874	110,009
<b>TOTAL CURRENT ASSETS</b>	<b>4,583,823</b>	<b>849,147</b>	<b>5,432,970</b>
<b>FIXED ASSETS</b>			
Property and equipment, net	188,473	126,532	315,005
<b>OTHER ASSETS</b>			
Escrows and deposits	83,354	-	83,354
Non-interest bearing mortgage loans, net, less current portion above	6,083,795	-	6,083,795
<b>TOTAL OTHER ASSETS</b>	<b>6,167,149</b>	<b>-</b>	<b>6,167,149</b>
<b>TOTAL ASSETS</b>	<b>\$ 10,939,445</b>	<b>\$ 975,679</b>	<b>\$ 11,915,124</b>

**LIABILITIES**

<b>CURRENT LIABILITIES</b>			
Accounts payable	\$ 82,441	\$ 42,077	\$ 124,518
Accrued liabilities	159,520	-	159,520
Other current liabilities	11,122	-	11,122
Notes payable, current portion	4,326	-	4,326
<b>TOTAL CURRENT LIABILITIES</b>	<b>257,409</b>	<b>42,077</b>	<b>299,486</b>
<b>NON CURRENT LIABILITIES</b>			
Mortgage escrow deposits held	318,792	-	318,792
Notes payable, noncurrent portion	4,708	-	4,708
<b>TOTAL NON CURRENT LIABILITIES</b>	<b>323,500</b>	<b>-</b>	<b>323,500</b>
<b>TOTAL LIABILITIES</b>	<b>580,909</b>	<b>42,077</b>	<b>622,986</b>

**NET ASSETS**

<b>UNRESTRICTED NET ASSETS</b>			
Undesignated	9,148,666	933,602	10,082,268
Board designated	790,497	-	790,497
<b>TOTAL UNRESTRICTED NET ASSETS</b>	<b>9,939,163</b>	<b>933,602</b>	<b>10,872,765</b>
<b>TEMPORARILY RESTRICTED NET ASSETS</b>	<b>419,373</b>	<b>-</b>	<b>419,373</b>
<b>TOTAL NET ASSETS</b>	<b>10,358,536</b>	<b>933,602</b>	<b>11,292,138</b>
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 10,939,445</b>	<b>\$ 975,679</b>	<b>\$ 11,915,124</b>

See Notes to Financial Statements

**HABITAT FOR HUMANITY OF KANSAS CITY, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGE IN NET ASSETS**

Year Ended June 30, 2017

<u>UNRESTRICTED NET ASSETS</u>	<u>Affiliate</u>	<u>ReStore</u>	<u>Total</u>
<b>NET PROGRAM SERVICE REVENUE</b>			
Sales	\$ 255,591	\$ 4,626,546	\$ 4,882,137
Cost of sales	700,613	4,106,270	4,806,883
Net income (loss) on sales	(445,022)	520,276	75,254
Interest income on mortgage loans	592,269	-	592,269
Other program income	18,895	-	18,895
<b>NET PROGRAM SERVICE REVENUE</b>	<b>166,142</b>	<b>520,276</b>	<b>686,418</b>
<b>GRANTS, CONTRIBUTIONS, AND OTHER REVENUE</b>			
Government income	106,029	-	106,029
Contributions	347,790	-	347,790
In-kind	78,312	3,600,780	3,679,092
Other	18,592	49,270	67,862
<b>TOTAL GRANTS, CONTRIBUTIONS, AND OTHER REVENUE</b>	<b>550,723</b>	<b>3,650,050</b>	<b>4,200,773</b>
Net assets released from restrictions	545,109	-	545,109
<b>TOTAL REVENUES</b>	<b>1,261,974</b>	<b>4,170,326</b>	<b>5,432,300</b>
<b>EXPENSES, exclusive of programmatic cost of sales above</b>			
Program services	1,202,630	3,138,492	4,341,122
Management and general	579,183	-	579,183
Fundraising	212,028	-	212,028
<b>TOTAL EXPENSES</b>	<b>1,993,841</b>	<b>3,138,492</b>	<b>5,132,333</b>
<b>CHANGE IN UNRESTRICTED NET ASSETS</b>	<b>(731,867)</b>	<b>1,031,834</b>	<b>299,967</b>
<b><u>TEMPORARILY RESTRICTED NET ASSETS</u></b>			
Temporarily restricted contributions	396,380	-	396,380
Net assets released from restrictions	(545,109)	-	(545,109)
<b>CHANGE IN TEMPORARILY RESTRICTED NET ASSETS</b>	<b>(148,729)</b>	<b>-</b>	<b>(148,729)</b>
<b>CHANGE IN NET ASSETS</b>	<b>(880,596)</b>	<b>1,031,834</b>	<b>151,238</b>
<b>NET ASSETS, BEGINNING OF YEAR</b>	<b>10,040,834</b>	<b>1,100,066</b>	<b>11,140,900</b>
<b>TRANSFERS</b>	<b>1,198,298</b>	<b>(1,198,298)</b>	<b>-</b>
<b>NET ASSETS, END OF YEAR</b>	<b>\$ 10,358,536</b>	<b>\$ 933,602</b>	<b>\$ 11,292,138</b>

See Notes to Financial Statements

**HABITAT FOR HUMANITY OF KANSAS CITY, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

Year Ended June 30, 2017

	Program Services			Management and General	Fundraising	Total
	Affiliate	ReStore	Total			
Wages and salaries	\$ 556,406	\$ 1,041,691	\$ 1,598,097	\$ 226,118	\$ 153,827	\$ 1,978,042
Payroll taxes and employee benefits	91,696	187,157	278,853	61,081	17,404	357,338
Rent	14,100	505,472	519,572	12,000	-	531,572
Procurement Expenses	-	361,588	361,588	-	-	361,588
Professional fees	48,392	72,358	120,750	53,795	9,188	183,733
Utilities and occupancy expense	14,909	199,466	214,375	28,141	76	242,592
Taxes and insurance	72,118	131,837	203,955	22,744	8,697	235,396
Other	27,613	56,424	84,037	19,984	10,084	114,105
Tithe and fee to national affiliate	45,583	4,167	49,750	-	-	49,750
Vehicle maintenance and fuel	18,143	9,890	28,033	996	990	30,019
Computer maintenance/equipment	15,446	36,798	52,244	66,942	4,458	123,644
Bank and credit card fees	-	88,281	88,281	4,355	3,286	95,922
Tools	27,134	12,357	39,491	422	-	39,913
Cost of homes sold	90,689	-	90,689	68	-	90,757
Infrastructure costs	27,858	-	27,858	-	-	27,858
Depreciation	22,565	34,758	57,323	16,500	-	73,823
Telephone	9,355	27,667	37,022	5,717	1,291	44,030
Family services, selection, and support	13,869	-	13,869	529	-	14,398
Contract labor	7,342	281,012	288,354	41,224	1,670	331,248
Postage and freight	1,085	10,696	11,781	3,383	19	15,183
Property maintenance	972	69,464	70,436	10,190	-	80,626
Loan servicing and closing costs	93,907	-	93,907	-	-	93,907
Staff development, training, and conferences	3,448	7,409	10,857	4,994	1,038	16,889
Direct cost of home sales, including adjustment of construction in progress and property available for sale to net realizable value	700,613	-	700,613	-	-	700,613
Direct cost of goods sold	-	4,106,270	4,106,270	-	-	4,106,270
<b>SUBTOTAL INCLUDING COST OF SALES</b>	<b>1,903,243</b>	<b>7,244,762</b>	<b>9,148,005</b>	<b>579,183</b>	<b>212,028</b>	<b>9,939,216</b>
Direct cost of home sales, including adjustment of construction in progress and property available for sale to net realizable value	(700,613)	-	(700,613)	-	-	(700,613)
Direct cost of goods sold	-	(4,106,270)	(4,106,270)	-	-	(4,106,270)
<b>TOTAL FUNCTIONAL EXPENSES</b>	<b>\$ 1,202,630</b>	<b>\$ 3,138,492</b>	<b>\$ 4,341,122</b>	<b>\$ 579,183</b>	<b>\$ 212,028</b>	<b>\$ 5,132,333</b>
<b>PERCENTAGE OF COSTS, INCLUDING COST OF SALES</b>			<b>92%</b>	<b>6%</b>	<b>2%</b>	<b>100%</b>

See Notes to Financial Statements

**HABITAT FOR HUMANITY OF KANSAS CITY, INC.**

**STATEMENT OF CASH FLOWS**

Year Ended June 30, 2017

<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>	<b>Affiliate</b>	<b>ReStore</b>	<b>Total</b>
Change in net assets	\$ (880,596)	\$ 1,031,834	\$ 151,238
Transfers	1,198,298	(1,198,298)	-
Adjustments to reconcile change in net assets to net cash flows from operating activities:			
Depreciation	39,065	34,758	73,823
Net contributed inventory activity	-	233,227	233,227
Net mortgage loan discount activity	(323,368)	-	(323,368)
Issuance of forgivable mortgage loans receivable	(536,280)	-	(536,280)
Foreclosure of mortgage loans receivable	184,196	-	184,196
Change in operating assets and liabilities:			
Accounts receivable	(19,768)	3,500	(16,268)
Promises to give	(39,000)	-	(39,000)
Merchandise inventory	28,233	(36,237)	(8,004)
Property held for sale and development	220,864	-	220,864
Construction in progress	(515,698)	-	(515,698)
Prepaid expenses	14,499	(49,874)	(35,375)
Escrow and other deposits	(33,053)	18,110	(14,943)
Accounts payable	(73,033)	(18,493)	(91,526)
Accrued liabilities	(13,261)	-	(13,261)
Other current liabilities	(12,770)	-	(12,770)
Mortgage escrow deposits held in trust	171,635	-	171,635
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>(590,037)</u>	<u>18,527</u>	<u>(571,510)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of investments	(331)	-	(331)
Purchase of property and equipment	(12,300)	(18,527)	(30,827)
Payments on line of credit	(61,009)	-	(61,009)
Payments on long-term debt	(8,332)	-	(8,332)
Payments received on mortgage loans receivable	893,529	-	893,529
NET CASH FLOWS FROM INVESTING ACTIVITIES	<u>811,557</u>	<u>(18,527)</u>	<u>793,030</u>
NET CHANGE IN CASH AND CASH EQUIVALENTS	221,520	-	221,520
CASH, BEGINNING OF YEAR	<u>2,200,643</u>	<u>-</u>	<u>2,200,643</u>
CASH, END OF YEAR	<u>\$ 2,422,163</u>	<u>\$ -</u>	<u>\$ 2,422,163</u>

See Notes to Financial Statements

## HABITAT FOR HUMANITY OF KANSAS CITY, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (1) Summary of significant accounting policies

**Nature of operations** – Habitat for Humanity of Kansas City, Inc. (“Habitat”) is a nonprofit corporation, incorporated in Missouri on May 7, 1979. Habitat is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian nonprofit that brings people together to build homes, communities, and hope. The mission of Habitat is to build sustainable and affordable homes and communities in Kansas City, Missouri. The term Affiliate encompasses all administrative, housing, and program functions of Habitat, and is a standard term set forth by Habitat for Humanity International. The term ReStore represents the home improvement stores and donation centers.

During the year ended June 30, 2017 through its Homeownership Program, Habitat built 3 new and rehabilitated/recycled 2 homes to sell to low and moderate income families. Habitat’s Homeownership Program accepts homeowner applications, selects families for program participation, and provides ongoing homeowner education.

Habitat homes are built using volunteer labor, donated materials, and funding from individuals, churches, corporations, and foundations. The homes are sold to qualifying partner families at no profit and with affordable 0% interest loans. Mortgage payments are invested back into the program, helping to build new homes across Habitat’s target neighborhoods. Homeowners are required to invest 250 hours of “sweat equity” in the construction of their home, other partner family homes, and other various tasks and are required to complete 50 hours of homeowner education classes. Since its inception, Habitat has enabled hundreds of families to achieve their dream of owning a home and, in doing so, has revitalized many neighborhoods. During the year ended June 30, 2017, Habitat also provided minor rehabilitation to 25 homes within their Home Preservation Program.

Habitat is a mission-driven and client-focused organization. Habitat’s supporters maximize their investments of time, talent, and treasure for the benefit of “building” homeowners who will participate in building their homes and communities.

The homes Habitat builds or rehabs each year impact Kansas City area families and their children. These families’ housing needs are met. Habitat provides opportunities for sponsors and volunteers to meet and work with families in the homeowner selection and building process. In doing so, a broader understanding of community housing needs is established, and Habitat’s supporters fully understand the impact of their gift to the families they are helping. Building and rehabilitating homes for low and moderate income families is a collective community investment. The fiscal, manual, and material contributions Habitat receives yearly create a ripple effect that inspires these families, their neighborhoods, and Kansas City as a whole.

Habitat’s ReStore is a retail outlet open to the general public. ReStore accepts new and used building materials, fixtures, and appliances and resells these items at discounted prices. The purpose of ReStore is to divert materials from the landfill, encourage homeowners (including Habitat homeowners) to improve their properties, and utilize net proceeds from sales as a non-restrictive funding source to build more homes.

Habitat is responsible for award-winning programs in homeowner education and community development. Habitat has numerous on-going partnerships with faith-based organizations, peer non-profits, service groups, local governments, and private corporations. Habitat is primarily and directly responsible for its own operations.

HABITAT FOR HUMANITY OF KANSAS CITY, INC.

NOTES TO FINANCIAL STATEMENTS

(1) Summary of significant accounting policies (continued)

**Basis of presentation** – Habitat’s financial statements are prepared on the accrual basis of accounting. Balances and transactions are presented in accordance with the existence or absence of donor-imposed restrictions. Habitat maintains its financial accounts in accordance with the principles and practices of fund accounting. Fund accounting is the procedure by which resources for various purposes are classified for accounting purposes in accordance with activities or objectives of Habitat.

- Unrestricted Net Assets are net assets that are not subject to donor-imposed restrictions. Items that affect (i.e., increase or decrease) this category of net assets primarily consist of program revenues and related expenses associated with the core activities of Habitat. In addition to these exchange transactions, changes to this category of net assets include certain types of philanthropic support - namely, unrestricted contributions and grants, including those designated by the Board to function as reserves, as well as restricted contributions and grants whose donor-imposed restrictions were met during the fiscal year, and income from investments.
- Temporarily Restricted Net Assets are net assets subject to donor-imposed restrictions that may or will be met either by actions of Habitat and/or the passage of time. Items that affect this category of net assets are restricted contributions and grants. Contributions and grants received with donor-imposed restrictions are reported as support in the temporarily restricted net assets class. These amounts are reclassified to unrestricted net assets when such restrictions are met or have expired.
- Permanently Restricted Net Assets are net assets subject to donor-imposed stipulations, which, as interpreted by the Board of Directors, according to the Uniform Prudent Management of Institutional Funds Act (UPMIFA) requirements, require Habitat to permanently maintain the fair value of the original gift as of the gift date. Habitat’s permanently restricted net assets were \$0 at June 30, 2017.

**Cash** – Cash consists of available cash balances on deposit at financial institutions. At times, balances in these accounts are in excess of federally insured limits. At June 30, 2017 Habitat’s uninsured balances totaled \$1,953,077. Habitat has not experienced any losses in such accounts and management believes the risk of loss is negligible.

**Investments** – Investments consisting of equity securities and are recorded at their aggregate fair value.

**Accounts receivable** – Accounts receivable are recorded at the amount due net of an allowance for estimated uncollectible amounts and are generally due within 30 days. Habitat determines its allowance by considering a number of factors, including the length of time receivables are past due, previous loss history, and the general economy as a whole. Habitat writes off receivables when they become uncollectible. No allowance was deemed necessary at June 30, 2017.

**Property and equipment** – Land, buildings, equipment, and vehicles are stated on the basis of cost, or if donated, at fair value on the date of donation. Depreciation is computed using the straight-line method over the following useful lives:

<u>Description</u>	<u>Estimated Useful Lives</u>
Building and improvements	5 - 40 Years
Leasehold improvements	5 - 40 Years
Construction and warehouse equipment	3 - 5 Years
Homes used in operations	5 - 40 Years
Vehicles	5 Years
Equipment and furniture	3 - 5 Years
Computer equipment	3 - 5 Years

See Notes to Financial Statements



# HABITAT FOR HUMANITY OF KANSAS CITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### (1) Summary of significant accounting policies (continued)

**Donated assets** – Donated assets are reflected as in-kind contributions at their estimated fair value. Donated assets include donations used for the construction of homes, operations of Habitat, and donations made to ReStore. These donations totaled \$3,666,637 during the year ended June 30, 2017.

**Donated services** – Habitat recognizes donated services that create or enhance non-financial assets and that require specialized skills, if the services are provided by individuals possessing those skills and if the services would typically need to be purchased if not provided by donation. During the year ended June 30, 2017, Habitat recorded \$12,455 in in-kind contributions for services that met these criteria.

A substantial number of additional volunteers have made significant contributions of their time to Habitat's program and supporting services which do not meet the requirements of Not-For-Profit Topic of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) related to revenue recognition of contributions received and, accordingly, are not recorded in these financial statements. The value of this contributed time is not reflected in these financial statements in accordance with U.S. generally accepted accounting principles. Although these services did not meet the criteria for recognition in the financial statements, unpaid volunteers provided over 48,900 volunteer hours for the year ended June 30, 2017, which were critical to the construction of homes being built. Through the Habitat volunteer coordination effort, volunteers were able to interact with the families selected for program participation, creating a full-circle of community volunteers, program participants, and agency involvement.

**Revenues and other support** – Contributions and grants, including unconditional promises to give, represent amounts raised from the public and are recognized in the period received. Contributions other than cash, including unconditional promises to give and donated materials with clearly measurable bases, are recorded at their estimated fair value at the date of receipt. Revenue from fees and grants from government agencies are recognized as they are earned through expenditure in accordance with the agreement. If any funding is received for exchange transactions in advance of the expenditure, it is recorded as deferred revenue on the statement of financial position.

**Functional expenses** – The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities and change in net assets. Certain costs have been allocated among the programs and supporting services benefited as depicted in the accompanying statement of functional expenses. Expenses that can be identified with a specific program and support are allocated directly according to their natural expenditure classification. Other expenses that are common to several functions are allocated by management's estimate of resources devoted to the programs or support source.

**Use of estimates** – The preparation of financial statements in conformity with U.S. 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. In these financial statements, construction in progress, property available for sale, ReStore inventory, and the valuation of notes receivable involve extensive reliance on management's estimates. Actual results could differ from those estimates.

**Advertising costs** – Habitat charges all advertising costs to expenses as they are incurred. Total advertising costs were \$16,585 for the year ended June 30, 2017.

**Taxes** – Habitat is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code as a not-for-profit organization. In addition, Habitat has been classified as a publicly-supported organization which is not a private foundation within the meaning of Section 509(a)(1) of the Code. Accordingly, no provision has been made for Federal income tax.

See Notes to Financial Statements

# HABITAT FOR HUMANITY OF KANSAS CITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### (1) Summary of significant accounting policies (continued)

Habitat's present accounting policy for the evaluation of uncertain tax positions is to review those positions on an annual basis. A liability would be recorded in the financial statements during the period which, based on all available evidence, management believes it is more likely than not that the tax position would not be sustained upon examination by taxing authorities and the liability would be incurred by Habitat. No accrual has been recorded at June 30, 2017 as management does not believe any material uncertainties exist. However, Habitat's returns are subject to examination by the Internal Revenue Service generally for three years after they are filed.

### (2) Merger

On June 22, 2016 the Board of Directors of Habitat voted to merge with Heartland Habitat for Humanity, Inc. (Heartland). The merger, which became effective July 1, 2016, was approved by Habitat for Humanity International, Inc. and the appropriate regulatory bodies. The following represents management's assessment of the financial position of Heartland as of June 30, 2016 based on its audited financial statements on which an unmodified opinion was issued on September 22, 2016:

	June 30, 2016
Cash	\$ 687,755
Certificate of deposit	115,000
Inventory	307,436
Construction in progress and property available for sale, at net realizable value	633,874
Other current assets	488,912
Mortgage loans receivable, net, non-current	3,549,415
Property and equipment, net	127,345
Other non-current assets	42,901
Total Assets	<u>\$ 5,952,638</u>
Accounts payable	156,282
Accrued expenses	117,415
Mortgage escrow deposits held in trust	147,157
Line of credit	61,009
Other current liabilities	11,544
Notes payable	17,366
Unrestricted net assets	5,054,205
Temporarily restricted net assets	387,660
Total Liabilities and Net Assets	<u>\$ 5,952,638</u>

The new nonprofit organization formed as a result of a merger should recognize and measure the assets and liabilities from the separate financial statements, prepared in accordance with U.S. Generally Accepted Accounting Principles (U.S. GAAP), of the merging organizations as of the merger date. Therefore, Heartland's assets and liabilities noted above and Habitat's assets and liabilities, both of which were prepared in accordance with U.S. GAAP, were combined to result in the new financial position of the merged organization effective July 1, 2016.

# HABITAT FOR HUMANITY OF KANSAS CITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### (3) Investments

Habitat utilizes ASC 820, "Fair Value Measurement," to record investments. ASC 820 establishes a three-level valuation hierarchy for disclosure of fair value measurements. The valuation hierarchy is based upon the transparency of inputs to the valuation of an asset or liability as of the measurement date. A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows:

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets.

Level 2 - Inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

Management of Habitat endeavors to utilize the best available information in measuring fair value. The following table represents the fair value of investments at June 30, 2017:

	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Equity securities				
Consumer goods	<u>\$ 8,123</u>	<u>\$ 8,123</u>	<u>\$ -</u>	<u>\$ -</u>

### (4) Unconditional promises to give

Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated future cash flows. The discounts on those amounts are computed using interest rates applicable to the years in which the promises are received. No discount rate has been applied to Habitat's outstanding promises to give at June 30, 2017 as they are anticipated to be received in less than one year. No allowance was recorded at June 30, 2017 as management considered the unconditional promises to give to be collectible. Unconditional promises to give at June 30, 2017 were \$39,000.

### (5) Merchandise inventory

Merchandise inventory consists of purchased building supplies and donated new and used building materials, fixtures, and appliances and is stated at the lower of cost or market utilizing the FIFO (first-in, first out) method. During the year ended June 30, 2017, management changed its approach to estimating the value of donated inventory to be primarily driven by subsequent sales rather than estimating donated inventory using Habitat's price book based on market research. Due to the current method for valuing donated inventory, management determined there to be no allowance reserve at June 30, 2017. As of June 30, 2017, merchandise inventory consisted of the following:

Purchased inventory	\$ 111,436
Donated inventory	<u>687,837</u>
Merchandise inventory	<u>\$ 799,273</u>

See Notes to Financial Statements

# HABITAT FOR HUMANITY OF KANSAS CITY, INC.

## NOTES TO FINANCIAL STATEMENTS

### (6) Construction in progress and property available for sale and development

As of June 30, 2017, construction in progress and property available for sale consisted of 26 homes, which were either in the process of being constructed and/or rehabilitated or which were complete and available for sale, and 33 plots of land. Construction in progress and property available for sale have been adjusted to management's estimate of the lower of cost or net realizable value of each respective property based on county appraisals and, if available, estimates of future sales price. During the year ended June 30, 2017, 5 houses were sold.

### (7) Mortgage loans receivable

Mortgage loans receivable consist of non-interest bearing mortgages, which are secured by real estate and which are payable in monthly installments over the life of the mortgage. These mortgages are discounted based upon the discount rate at the inception of the mortgages. The discount rate is set by Habitat for Humanity International yearly and was 7.47% during the year ended June 30, 2017. The discount will be recognized as interest income over the terms of the mortgages. Habitat had 304 mortgage loans receivable at June 30, 2017. Habitat has not experienced any material losses with respect to uncollectible mortgages in the past and believes that the value of the collateral on the respective loans is sufficient to cover any losses on future foreclosures. Accordingly, no reserve has been established for uncollectible loans.

The balances of mortgage loans held at June 30, 2017 are as follows:

Mortgage loans receivable, gross	\$ 14,081,381
Less: Unamortized discount	<u>(7,040,512)</u>
Mortgage loans receivable, net of unamortized discount	7,040,869
Less: MHDC sale (see Note 14)	(234,333)
Less: Current portion	<u>(722,741)</u>
Non-current portion	<u><u>\$ 6,083,795</u></u>

### (8) Foreclosed residential real estate properties

At June 30, 2017, Habitat had residential real estate properties acquired through foreclosure with a carrying amount of \$181,540. That amount includes all properties for which physical possession had been obtained, either through (a) legal title obtained upon completion of foreclosure proceedings, or (b) conveyance by the borrower in satisfaction of a loan through completion of a deed in lieu of foreclosure or another similar legal agreement. In addition, Habitat had an interest in consumer mortgage loans secured by residential real estate properties for which formal foreclosure proceedings were in process at June 30, 2017. The carrying amount of those loans, net of the unamortized discount, is \$72,672 at June 30, 2017.

### (9) Transfers

The statement of activities and change in net assets and the statement of cash flows show a transfer of \$1,198,298 from ReStore to the Affiliate. This represents a non-cash operating transfer of ReStore's current year net income and net assets in excess of ReStore's net asset position as of June 30, 2017.

**HABITAT FOR HUMANITY OF KANSAS CITY, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**(10) Property and equipment**

At June 30, 2017, property and equipment consisted of the following:

	<u>Affiliate</u>	<u>ReStore</u>	<u>Total</u>
Cost			
Land	\$ 7,926	\$ -	\$ 7,926
Buildings and improvements	298,845	-	298,845
Leasehold improvements	38,880	223,834	262,714
Construction equipment	73,085	-	73,085
Warehouse equipment	-	113,094	113,094
Homes used in operations	14,120	-	14,120
Vehicles	141,197	94,004	235,201
Equipment and furniture	13,522	38,744	52,266
Computer equipment	118,318	-	118,318
Total cost	<u>705,893</u>	<u>469,676</u>	<u>1,175,569</u>
Less: Accumulated depreciation	<u>(517,420)</u>	<u>(343,144)</u>	<u>(860,564)</u>
Net property and equipment	<u>\$ 188,473</u>	<u>\$ 126,532</u>	<u>\$ 315,005</u>

**(11) Temporarily restricted net assets**

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Support that is restricted by the donor is reported as an increase in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Temporarily restricted net assets were available for the following purposes at June 30, 2017:

Construction	\$ 208,996
Home Preservation Program	84,884
Scholarship	76,291
Merger Expenses	24,744
Technology	16,383
ReStore	6,001
Financial Literacy	2,074
Total	<u>\$ 419,373</u>

Net assets released from donor restrictions by incurring expenses and/or satisfying the time restrictions specified by the donors during the year ended June 30, 2017 were as follows:

Construction	\$ 403,141
Home Preservation Program	98,977
Financial Literacy	1,090
Merger Expenses	20,256
ReStore	8,218
Technology	8,049
Scholarship	5,378
Total	<u>\$ 545,109</u>

HABITAT FOR HUMANITY OF KANSAS CITY, INC.

NOTES TO FINANCIAL STATEMENTS

(12) **Operating leases**

Habitat has seven building operating leases, one for each of the Missouri and Kansas offices and then one for each of its ReStore locations, with expirations ranging from January 2018 to June 2026. Habitat also has eight equipment operating leases with expirations ranging from October 2017 to April 2021. Expense related to these leases was \$531,572 during the year ended June 30, 2017.

Future minimum lease payments required for the noncancelable lease are:

Years Ending June 30,

2018	\$	489,400
2019		331,400
2020		278,200
2021		263,300
2022		253,200
Thereafter		<u>709,200</u>
Total	\$	<u>2,324,700</u>

Habitat's office space is donated at a cost of \$1, which is included in rent expense. Habitat is responsible for all repairs and maintenance costs associated with this building, which amounted to approximately \$3,023 during the year ended June 30, 2017.

(13) **Transactions with national affiliate**

Habitat remits a portion of its contributions to its national office, HFHI. These funds are used to construct homes in economically depressed areas around the world. Tithe expense for the year ended June 30, 2017 was \$49,750. Habitat was awarded a \$100,000 Self-Help Homeownership Opportunity Program (SHOP) grant from HFHI to build eight new homes during 2012. Pursuant to the terms of the grant, 25% of the amount received is to be repaid over 48 months beginning January 2012. The grant amount was subsequently increased during 2012. As of June 30, 2017, Habitat owed HFHI \$106, which is included in other liabilities and is due during 2018.

(14) **Contingent liability**

In 1998, Habitat entered into an agreement whereby it sold a package of ten mortgage loans to the Missouri Housing Development Corporation (MHDC). In subsequent years additional loans were sold to MHDC under this agreement, resulting in a total outstanding balance of \$234,333 at June 30, 2017. Habitat has guaranteed the performance of these loans to MHDC. Should the borrower default on their payments, Habitat has the option of making these payments for the borrower to MHDC, or to replace the non-performing loan with one that is performing.

(15) **Subsequent events**

Habitat has evaluated subsequent events through November 30, 2017, which is the date the financial statements were available to be issued. The following significant matters were identified for disclosure during this evaluation.

On September 28, 2017, the Board of Directors of Habitat voted to acquire the property located at 1423 E. Linwood, Kansas City, Missouri for a nominal amount. The property was acquired from the City of Kansas City on October 16, 2017 by issuance of all required documents filed in Jackson County Missouri.

Habitat sold 11 homes through its Homeownership Program subsequent to year end.

## HABITAT FOR HUMANITY OF KANSAS CITY, INC.

### NOTES TO FINANCIAL STATEMENTS

#### (16) Recent accounting pronouncements

**Recent accounting pronouncements - Not-for-Profit Entities** - In August 2016, the FASB issued Accounting Standards Update (ASU) No. 2016-14, *Presentation of Financial Statements of Not-for-Profit Entities*. This update, which amends the requirements for financial statements and notes in *Topic 958, Not-for-Profit Entities*, require a Not-for-Profit (NFP) to:

- Present on the face of the statement of financial position two classes of net assets as “net assets with donor restrictions” and “net assets without donor restrictions,” rather than for the currently required three classes.
- Present on the face of the statement of activities and change in net assets the amount of the change in each of the two classes of net assets (noted above) rather than that of the currently required three classes.
- Continue to present on the face of the statement of cash flows the net amount of operating cash flows using either the direct or indirect method of reporting, but no longer require the presentation or disclosure of the indirect method (reconciliation) if using the direct method.
- Provide enhanced disclosures about (1) amounts and purposes of governing board designations that result in self-imposed limits on the use of resources without donor-imposed restrictions (2) composition of net assets with donor restrictions at the end of the period and how the restrictions affect the use of resources (3) qualitative information that communicates how a NFP manages its liquid resources available to meet cash needs for general expenditures within one year of the balance sheet date (4) quantitative information, either on the face of the statement of financial position or in the notes, and additional qualitative information in the notes that communicates the availability of a NFP’s financial assets at the statement of financial position to meet cash needs for general expenditures within one year of the statement of financial position date (5) amounts of expenses by both their natural classification and their functional classification (6) report investment return net of external and direct internal investment expenses, and no longer require disclosure of those netted expenses (7) use, in absence of explicit donor stipulations, the placed-in-service approach for reporting expirations of restrictions on gifts of cash or other assets to be used to acquire or construct a long-lived asset and reclassify any amounts from net assets with donor restrictions to net assets without donor restrictions for such long-lived assets that have been placed in service as of the beginning of the period of adoption.

**Recent accounting pronouncements - Leases** - In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*, which is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, office equipment, and vehicles. Under the current accounting model, an organization applies a classification test to determine the accounting for the lease arrangement as an operating or capital lease. The new guidance will require organizations that lease assets to recognize on the statement of financial position the assets and liabilities for the rights and obligations created by those leases. A lessee will be required to recognize assets and liabilities for leases with terms of more than twelve months.

Consistent with U.S. GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease primarily will depend on its classification as a capital or operating lease. However, unlike current U.S. GAAP, the new ASU will require both types of leases to be recognized on the statement of financial position. The ASU will also require disclosure to help donors and other financial statement users better understand the amount, timing, and uncertainty of cash flows arising from leases. These disclosures include both qualitative and quantitative analysis. This ASU is effective for Habitat’s June 30, 2021 financial statements and early adoption is permitted. Habitat is currently evaluating the effect that the updated standard will have on the financial statements and related disclosures.