

**GREATER CLEVELAND
HABITAT FOR HUMANITY, INC. AND
GCHFH FUNDING COMPANY, LLC**

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
**Greater Cleveland Habitat for Humanity, Inc.
and GCHFH Funding Company, LLC**
Cleveland, Ohio

We have audited the accompanying consolidated financial statements of **Greater Cleveland Habitat for Humanity, Inc. and GCHFH Funding Company, LLC** (nonprofit organizations), which comprise the consolidated statements of financial position as of December 31, 2018 and 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of **Greater Cleveland Habitat for Humanity, Inc. and GCHFH Funding Company, LLC** as of December 31, 2018 and 2017, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Zinner & Co. LLP

Beachwood, Ohio

March 25, 2019

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
Assets		
Cash and cash equivalents	\$ 291,232	\$ 424,692
Cash designated for home builds and other operational costs	402,888	17,187
Investments	2,125,432	1,017,308
Receivables		
Mortgages receivable	4,886,758	3,940,003
Escrows receivable	96,960	118,014
Discount and reserves for mortgages and escrows receivables	(2,106,921)	(2,242,083)
Unconditional promises to give - Without donor restrictions	88,621	234,159
Unconditional promises to give - With donor restrictions	200,000	3,733
Other receivables	72,317	476,301
Prepaid expenses and deposits	34,861	37,845
Inventories		
Materials inventory	99,000	150,745
ReStore inventory	422,776	386,222
Construction in progress		
Rehab homes	1,081,626	1,848,862
Anticipated loss on home builds	(18,709)	(233,173)
Property and equipment, net	235,124	175,959
Assets to be placed in service	10,000	10,000
Assets held for resale	9,400	37,497
Total Assets	\$ 7,931,365	\$ 6,403,271
Liabilities		
Accounts payable	\$ 110,029	\$ 149,140
Accrued expenses	99,944	70,597
Line of credit	0	83,423
Capital leases payable	129,047	119,994
Notes payable	1,214,767	290,667
Total Liabilities	1,553,787	713,821
Net Assets		
Without Donor Restrictions		
Available for programs and services	2,947,039	2,089,895
Allocated to affordable housing programs	2,827,651	3,582,368
Total Net Assets Without Donor Restrictions	5,774,690	5,672,263
With Donor Restrictions	602,888	17,187
Total Net Assets	6,377,578	5,689,450
Total Liabilities and Net Assets	\$ 7,931,365	\$ 6,403,271

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues			
Contributions	\$ 1,868,667	\$ 602,888	\$ 2,471,555
Gain on the purchase of mortgages	96,313	0	96,313
Home sales, net	1,224,100	0	1,224,100
ReStore sales activity			
Gross sales	2,178,871	0	2,178,871
Donated inventory	2,133,218	0	2,133,218
Less: Cost of sales	(2,141,299)	0	(2,141,299)
Other donated goods and services	1,620	0	1,620
Special events			
Gross revenue	42,050	0	42,050
Less: Direct expenses	(8,979)	0	(8,979)
Rental income	1,271	0	1,271
Investment income	14,586	0	14,586
Service fees and other income	100,902	0	100,902
	5,511,320	602,888	6,114,208
Net assets released from restrictions:			
Satisfaction of program restrictions	17,187	(17,187)	0
Total Reclassifications	17,187	(17,187)	0
Total Support and Revenues	5,528,507	585,701	6,114,208
Expenses			
Program services	4,689,342	0	4,689,342
General and administrative	383,542	0	383,542
Fundraising and development	353,196	0	353,196
Total Expenses	5,426,080	0	5,426,080
Change in Net Assets	102,427	585,701	688,128
Net Assets at Beginning of Year	5,672,263	17,187	5,689,450
Net Assets at End of Year	5,774,690	602,888	6,377,578
Net Assets With Donor Restrictions	0	(602,888)	(602,888)
Net Assets Without Donor Restrictions Allocated to Affordable Housing Programs	(2,827,651)	0	(2,827,651)
Net Assets Without Donor Restrictions Available for Programs and Services	\$ 2,947,039	\$ 0	\$ 2,947,039

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

CONSOLIDATED STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenues			
Contributions	\$ 2,333,058	\$ 17,187	\$ 2,350,245
Grants	531,297	0	531,297
Gain on sale of mortgages	387,400	0	387,400
Home sales, net	593,202	0	593,202
ReStore sales activity			
Gross sales	2,023,550	0	2,023,550
Donated inventory	1,975,262	0	1,975,262
Less: Cost of sales	(2,035,197)	0	(2,035,197)
Other donated goods and services	66,054	0	66,054
Special events			
Gross revenue	161,740	0	161,740
Less: Direct expenses	(44,747)	0	(44,747)
Rental income	2,044	0	2,044
Service fees and other income	30,104	0	30,104
	6,023,767	17,187	6,040,954
Net assets released from restrictions:			
Satisfaction of program restrictions	232,239	(232,239)	0
Total Reclassifications	232,239	(232,239)	0
Total Support and Revenues	6,256,006	(215,052)	6,040,954
Expenses			
Program services	3,781,907	0	3,781,907
General and administrative	307,662	0	307,662
Fundraising and development	366,037	0	366,037
Total Expenses	4,455,606	0	4,455,606
Change in Net Assets	1,800,400	(215,052)	1,585,348
Net Assets at Beginning of Year	3,871,864	232,239	4,104,103
Net Assets at End of Year	5,672,263	17,187	5,689,450
Net Assets With Donor Restrictions	0	(17,187)	(17,187)
Net Assets Without Donor Restrictions Allocated to Affordable Housing Programs	(3,582,368)	0	(3,582,368)
Net Assets Without Donor Restrictions Available for Programs and Services	\$ 2,089,895	\$ 0	\$ 2,089,895

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Supporting Services			Total
	Program Services	General and Administrative	Fundraising and Development	
Salaries and Related Expenses				
Salaries	\$ 1,512,992	\$ 163,935	\$ 234,477	\$ 1,911,404
Payroll taxes	132,408	14,347	20,520	167,275
Employee benefits	255,702	27,703	39,628	323,033
Total Salaries and Related Expenses	1,901,102	205,985	294,625	2,401,712
Other Operating Expenses				
Advertising	41,085	0	0	41,085
Banking fees and charges	25,064	1,526	0	26,590
Costs of home construction	1,990,256	0	0	1,990,256
Depreciation	56,959	0	0	56,959
Mortgage portfolio costs				
Present value discount on new loans	38,182	0	0	38,182
Imputed interest	(113,386)	0	0	(113,386)
Other portfolio costs	(11,616)	0	0	(11,616)
Dues and subscriptions	10,272	597	1,170	12,039
Equipment rental	17,563	2,417	604	20,584
Gifts and awards	4,810	0	0	4,810
Insurance	41,249	3,079	2,054	46,382
Interest	3,325	13,268	0	16,593
Miscellaneous operating expenses	1,798	537	5	2,340
Office and computer supplies	22,485	2,783	2,937	28,205
Postage and delivery	5,121	1,097	1,097	7,315
Printing and publications	7,820	0	15,426	23,246
Professional fees and contract services	57,923	93,796	13,066	164,785
Rent and insurance	331,405	24,166	14,500	370,071
Repairs and maintenance	33,278	2,097	524	35,899
Security	19,531	207	52	19,790
Telephone	25,166	3,338	2,070	30,574
Travel, mileage and lodging	20,447	16,613	1,563	38,623
Meetings and events	6,399	779	67	7,245
Utilities	96,491	11,257	3,436	111,184
Vehicle expense	56,613	0	0	56,613
Total Other Operating Expenses	2,788,240	177,557	58,571	3,024,368
Total Expenses	\$ 4,689,342	\$ 383,542	\$ 353,196	\$ 5,426,080
	86%	7%	7%	100%

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Supporting Services			Total
	Program Services	General and Administrative	Fundraising and Development	
Salaries and Related Expenses				
Salaries	\$ 1,218,915	\$ 166,077	\$ 223,850	\$ 1,608,842
Payroll taxes	163,201	22,236	29,971	215,408
Employee benefits	217,226	29,597	39,893	286,716
Total Salaries and Related Expenses	1,599,342	217,910	293,714	2,110,966
Other Operating Expenses				
Advertising	23,134	0	0	23,134
Banking fees and charges	23,492	1,476	0	24,968
Costs of home construction	795,486	0	0	795,486
Depreciation	48,570	0	0	48,570
Mortgage portfolio costs				
Present value discount on new loans	648,529	0	0	648,529
Imputed interest	(134,370)	0	0	(134,370)
Other portfolio costs	8,802	0	0	8,802
Dues and subscriptions	5,615	1,749	2,190	9,554
Equipment rental	13,970	954	1,285	16,209
Gifts and awards	15,087	0	0	15,087
Insurance	45,546	3,432	2,288	51,266
Interest	7,162	4,382	0	11,544
Late fees	0	60	0	60
Local vehicle expense	46,865	0	0	46,865
Miscellaneous operating expenses	827	314	100	1,241
Office and computer supplies	26,275	1,499	2,020	29,794
Postage and delivery	3,992	856	856	5,704
Printing and publications	22,544	0	16,247	38,791
Professional fees and contract services	64,762	23,215	17,961	105,938
Rent and insurance	327,433	24,617	17,512	369,562
Repairs and maintenance	12,804	1,271	635	14,710
Security	22,571	211	105	22,887
Telephone	22,498	7,025	2,654	32,176
Travel, mileage and lodging	39,349	11,897	4,368	55,613
Meetings and events	7,759	834	126	8,719
Utilities	83,865	5,961	3,975	93,802
Total Other Operating Expenses	2,182,565	89,752	72,323	2,344,640
Total Expenses	\$ 3,781,907	\$ 307,662	\$ 366,037	\$ 4,455,606
	85%	7%	8%	100%

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash Flows from Operating Activities		
Change in net assets	\$ 688,128	\$ 1,585,348
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	74,180	70,241
Loss on disposal of fixed assets	2,708	0
Reserves for mortgages and escrows receivable	(47,500)	490,121
Amortization of mortgage loan discount	(125,844)	(134,370)
Donated assets	28,097	(28,097)
Net gain on AAR mortgage loans purchases and sales	(96,313)	(387,400)
Discount on mortgages issued	38,182	648,529
Cash provided (used) by changes in certain assets and liabilities:		
Cash designated for home builds and other operational costs	(385,701)	215,052
Mortgage receivable - New mortgages issued	(1,248,547)	(1,068,906)
Mortgage receivable - Payments received	463,485	307,147
Escrow receivable	21,054	(6,593)
Unconditional promises to give	(50,729)	163,275
Other receivables	403,984	(156,782)
Materials Inventory	51,745	22,308
ReStore inventory	(36,554)	27,148
Homes held for rehab	767,236	(790,193)
Anticipated loss on future home sales	(214,464)	7,476
Prepaid expenses and deposits	2,984	638
Accounts payable	(39,111)	5,385
Accounts payable - Related party	0	(2,500)
Accrued expenses	29,347	(42,879)
Net Cash Provided by Operating Activities	326,367	924,948
Cash Flows from Investing Activities		
Investment activity, net	(1,108,124)	(1,017,308)
Purchase of fixed assets	(136,054)	0
Net Cash Used by Investing Activities	(1,244,178)	(1,017,308)
Cash Flows from Financing Activities		
Net payments on accelerated asset recovery loans	(65,380)	(59,527)
Net proceeds (payments) on long-term debt	924,101	(12,827)
Net proceeds (payments) under capitalized lease obligations	9,053	(49,463)
Net payments on line of credit agreement	(83,423)	(20,000)
Net Cash Provided (Used) by Financing Activities	784,351	(141,817)
Net Increase (Decrease) in Cash and Cash Equivalents	(133,460)	(234,177)
Cash and Cash Equivalents at Beginning of Year	424,692	658,870
Cash and Cash Equivalents at End of Year	\$ 291,232	\$ 424,692

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

CONSOLIDATED STATEMENTS OF CASH FLOWS

FOR THE YEAR ENDED DECEMBER 31, 2018 AND 2017

(CONTINUED FROM PREVIOUS PAGE)

	<u>2018</u>	<u>2017</u>
Supplemental Disclosure of Cash Flow Information:		
Cash paid for interest	\$ 16,593	\$ 11,544
Supplemental Disclosure of Non-Cash Transactions:		
Vehicles acquired under capital lease obligations	\$ 59,733	\$ 61,002
Non-cash contributions of inventory received at fair market value	2,133,218	1,975,262
Non-cash cost of sales recognized	2,141,299	2,035,197
Non-cash exchange of mortgages for note payable (Note E, K)	0	687,400
Non-cash contribution of a home held for resale	0	28,097

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE A - NATURE OF THE ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

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

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

During 2018 Habitat established the GCHFH Funding Company, LLC (Funding Company) under common control of the Habitat Board of Directors. Funding Company was formed to engage in the activity of acquiring and holding mortgage loans originated by Greater Cleveland Habitat for Humanity, Inc., the sole member, which are acquired and held in compliance with note purchase agreements between Greater Cleveland Habitat for Humanity, Inc. and financial institutions (See Note E).

The accompanying consolidated financial statements of GCHFH include the operations of GCHFH and Funding Company and are collectively referred to as GCHFH, unless specifically noted. All significant intercompany transactions have been eliminated in consolidation.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958-205. Under ASC 958-205, GCHFH is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

ASC 958-205 requires board-designated funds to be reported as part of net assets without donor restrictions; accordingly, GCHFH reports designations of voluntary board-approved segregations of net assets without donor restrictions for specific purposes as a classification of net assets without donor restrictions.

Basis of Accounting

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

Cash and Cash Equivalents

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

Unconditional Promises to Give

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

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. Conditional promises to give are recognized when the conditions on which they depend are substantially met. GCHFH uses the allowance method to determine uncollectible unconditional promises to give. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance deemed necessary for uncollectible promises to give as of December 31, 2018 and 2017.

Mortgages Receivable, Discounts, and Allowances

As constructed and completed homes are transferred to qualified families, GCHFH allows qualified families to purchase the homes at appraised value subject to mortgages which bear no interest. Mortgages receivable consist of non-interest bearing mortgages secured by real estate and payable in monthly installments over the life of the mortgage. These mortgages are for terms generally between 15 and 30 years.

The mortgages are recorded at the gross amount of payments to be received over the life of the mortgage and are discounted at various rates ranging from 7.39% to 9.00% based on the prevailing market rates at the inception of the mortgage as established by Habitat for Humanity International, Inc. A discount on the mortgages is recorded to reflect the economic benefit of the zero-interest-mortgage to the qualified families. Discounts are amortized over the life of the mortgage using the effective interest method. Mortgages receivable are periodically reviewed for uncollectibility based on past history and current economic conditions. GCHFH also holds a second mortgage on some properties that represents the difference between the estimated fair market value of the house and the first mortgage balance as of the transfer date.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

Mortgages Receivable, Discounts, and Allowances (Continued)

The second mortgage is in place to mitigate the risk of the homeowner selling the home for a profit. In the event that a homeowner sells the home in less than ten years from the initial sale, GCHFH will receive the prorated portion of the mortgage amount from the proceeds of the sale. Due to the uncertainty regarding the potential for collection related to second mortgages, no amounts have been recorded in these consolidated financial statements. Proceeds from second mortgages would be recorded as income in the period collected.

GCHFH has established several reserves to account for the risk of mortgage default. The reserve for loan loss is based on prior collection history of mortgages receivable. As of December 31, 2018 and 2017, GCHFH estimates that 10% of the loans issued will fall into foreclosure. The reserve balance is based on the total mortgages receivable less the present value discount and less the value of the mortgages that have fallen into pre-foreclosure as of year-end multiplied by the aforementioned percentage. As of December 31, 2018 and 2017, the reserve for loan loss was \$210,000 and \$167,000, respectively. The anticipated loss on foreclosed properties reserve has been established for delinquent mortgages that have entered the pre-foreclosure stage. GCHFH estimates that the resale value of a foreclosed home is \$10,000. The anticipated loss on foreclosed properties reserve is the difference between the balance due on the mortgage in pre-foreclosure, any escrow receivable and the sum of the present-value reserve for that home and the \$10,000 expected resale value as estimated by GCHFH. As of December 31, 2018, there were 8 homes in pre-foreclosure with a balance of \$319,667. As of December 31, 2017, there were 8 homes in pre-foreclosure with a balance due of \$424,217. As of December 31, 2018 and 2017, the reserve for anticipated loss on foreclosed properties was \$125,000 and \$204,000, respectively.

Escrow Receivables and Liabilities

GCHFH uses a third party service provider to both collect and remit escrow amounts on behalf of qualified families for the payments of taxes and insurance. At times, GCHFH, will make advance payments for certain escrows due, such as forced placement insurance resulting in receivables from the applicable qualified families. During the closing process GCHFH, will receive escrow amounts from the title company that are then remitted to the third party service provider for the payments of taxes and insurance. Any amounts temporarily held at year end are recorded as liabilities.

Homes Held for Rehab

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

Inventories

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

Property and Equipment

Property and equipment are recorded at cost, or if donated, at estimated fair market value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has restricted the donated asset to a specific purpose. Expenditures for replacements and improvements are capitalized while maintenance and repairs that do not improve or extend the life of the respective assets are expensed currently.

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

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

Investments

Investments are valued at fair value.

Donated investments are reflected as contributions at their fair values at date of receipt. Dividend and interest income and gains and losses on investments are reflected in current activities without donor restrictions unless restricted by the donor, either by law or explicit donor stipulation, in which case they would be reported in activities with donor restrictions.

Anticipated Loss on Future Home Builds

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

Vacation Pay

Vacation pay is expensed when paid. Any accrual of vacation pay as of December 31, 2018 and 2017 is not material to the consolidated financial statements.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

Net Assets Without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets With Donor Restrictions

Net assets subject to donor-imposed stipulations that may or may not be met, either by actions of GCHFH and/or the passage of time and net assets subject to donor-imposed stipulations that are maintained permanently by GCHFH. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities and changes in net assets as released from restrictions.

In situations where GCHFH meets all donor-imposed restrictions on amounts contributed for a specific purpose in the same reporting period in which the contribution was received, the contribution is reported as without donor restrictions support.

Revenue and Support With and Without Donor Restrictions

Contributions received are recorded as with or without donor restrictions, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions. Funds received related to conditional grants are classified as refundable advances until expended for the purposes of the grants.

Donated Services

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

Pervasiveness of Estimates

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

Concentrations of Credit Risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash and equivalents and promises to give.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

Concentrations of Credit Risk (Continued)

The Organization maintains its cash and equivalents with financial institutions and although at times they may have invested amounts in excess of any federal insurance limits, management does not feel that it is exposed to any substantial credit risk. Concentrations with respect to promises to give are limited due to the large number of donors comprising the Organization's donor base and the variety of the Organization's funding sources. As of December 31, 2018 and 2017, the Organization had no other significant concentrations of credit risk.

Functional Allocation of Expenses

Costs of providing various programs and supporting services are allocated based on specific identification, if practical. Certain categories of expenses are attributable to more than one program or supporting function. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include insurance, rent, repairs and maintenance, security, and depreciation, which are allocated on a square-footage basis. As well as, salaries, payroll taxes and benefits, which are allocated on the basis of estimates of time and effort.

Description of Functional Expenses

Program Services:

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

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

General and Administrative:

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

Fundraising and Development:

Expenses are incurred in raising additional funds for GCHFH.

Advertising

Advertising costs are expensed as incurred. During the year ended December 31, 2018 and 2017, advertising costs were \$41,085 and \$23,134, respectively.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

Recently Adopted Accounting Pronouncements

In August 2016, the FASB issued ASU 2016-14, Not-for-Profit Entities (Topic 958) – Presentation of Financial Statements for Not-for-Profit Entities. The ASU amends the current reporting model for not-for-profit organizations and requires enhanced disclosures. The major changes include: (a) requiring the presentation of only two classes of net assets now entitled “net assets without donor restrictions” and “net assets with donor restrictions”, (b) modifying the presentation of underwater endowment funds and related disclosures, (c) requiring that all not-for-profit organizations present an analysis of expenses by function and nature in either the statement of activities, a separate statement, or in the notes and disclose a summary of the allocation methods used to allocate costs, (d) requiring the disclosure of quantitative and qualitative information regarding liquidity and availability of resources, (e) presenting investment returns net of external and

direct expenses, and (f) modifying other financial statement reporting requirements and disclosures intended to increase the usefulness of the consolidated financial statements. The ASU was effective for the Organization’s financial statements for fiscal years beginning after December 15, 2017. The provisions of the ASU were applied on a retrospective basis for all years presented.

Recent Accounting Pronouncements

In May 2014, the FASB issued ASU 2014-09, Revenue from Contracts with Customers (Topic 606), requiring an entity to recognize the amount of revenue to which it expects to be entitled for the transfer of promised goods or services to customers. The updated standards will replace most existing revenue recognition guidance within the accounting principles generally accepted in the United States of America when it becomes effective and permits the use of either a full retrospective or retrospective with cumulative effect transition method. In August 2015, the FASB issued ASU 2015-14, which deferred the effective date of ASU 2014-09 one year making it effective for annual reporting periods beginning after December 15, 2018. Management has not yet selected a transition method and is evaluating the impact of adopting this guidance on its consolidated financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842) (“ASU 2016-02”). The objective of ASU 2016-02 is to recognize lease assets and lease liabilities by leases for those leases classified as operating leases under previous generally accepted accounting principles (GAAP). ASU 2016-02 is effective for fiscal years beginning after December 15, 2019 and interim periods within fiscal years beginning after December 15, 2020. Early adoption of ASU 2016-02 is permitted. Management will be evaluating the potential impact of adopting this guidance on its consolidated financial statements.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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

Recent Accounting Pronouncements (Continued)

In June 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made. The amendments in this update clarify and improve current guidance about whether a transfer of assets is a contribution or an exchange transaction. In addition, an entity is required to determine whether a contribution is conditional on the basis of whether the agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets. For resource recipients, this new standard is effective for annual periods beginning after December 15, 2018. For resource providers, this new standard is effective for annual periods beginning after December 15, 2019. Management is currently evaluating the impact this statement will have on its consolidated financial statements.

In August 2018, the FASB issued ASU 2018-13, Changes to Disclosure Requirements for Fair Value Measurement. The objective of this statement is to modify the disclosure requirements on fair value measurements in Topic 820, Fair Value Measurement. The statement is effective for all entities for fiscal years beginning after December 15, 2019. Early adoption is permitted. Management is currently evaluating the impact this statement will have on its consolidated financial statements.

Subsequent Events

Subsequent events applicable to the year ended December 31, 2018 have been evaluated through March 25, 2019, the date the consolidated financial statements were available to be issued.

NOTE B - PROMISES TO GIVE

Unconditional promises to give as of December 31, 2018 and 2017 consist of the following:

	2018	2017
Promises to give without donor restrictions	\$ 89,500	\$ 236,767
Restricted for Partner Family staffing	0	3,733
Restricted for home rehabs	200,000	0
Total unconditional promises to give	289,500	240,500
Less: Unamortized discount	(879)	(2,608)
Net Unconditional Promises to Give	\$ 288,621	\$ 237,892

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE B - PROMISES TO GIVE (CONTINUED)

	2018	2017
Amounts due in:		
Less than one year	\$ 263,500	\$ 188,500
One to five years	26,000	52,000
Total Amounts Due	\$ 289,500	\$ 240,500

NOTE C - CONSTRUCTION IN PROGRESS

Costs incurred relating to homes under construction but not completed at the end of each year are recorded as construction in progress. Construction costs include the cost of labor and materials purchased by GCHFH. Donated materials are recorded based on their estimated value at the time of receipt.

No amounts have been recorded in construction in progress for donated services, as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the construction of the homes.

Construction in progress on Rehab homes as December 31, 2018 and 2017 consist of the following:

	Number	Costs
Rehab homes under construction - January 1, 2018	42	\$ 1,848,862
Additional costs incurred on beginning homes	0	852,415
Rehab homes started during the year	15	315,406
Rehab homes transferred out during the year	(30)	(1,935,057)
Rehab homes under construction - December 31, 2018	27	\$ 1,081,626
	Number	Costs
Rehab homes under construction - January 1, 2017	26	\$ 1,058,669
Additional costs incurred on beginning homes	0	872,355
Rehab homes started during the period	25	502,263
Rehab Homes transferred out during the period	(9)	(584,425)
Rehab homes under construction - December 31, 2017	42	\$ 1,848,862

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE D - MORTGAGES RECEIVABLE

As homes are transferred to qualified families, GCHFH allows qualified families to purchase homes at appraised value subject to mortgages which bear no interest. These mortgages are for terms generally between 15 and 30 years. A discount on the mortgages is recorded in order to reflect the economic benefit of the zero-interest mortgage to the qualified families.

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

The mortgage receivable balance as of December 31, 2018 and 2017 is comprised of the following items:

	2018		
	Total	Current Portion	Long-Term Portion
Mortgage receivable - Gross	\$ 4,886,758	\$ 364,872	\$ 4,521,886
Less:			
Discount on mortgages receivable	(1,751,421)	(138,303)	(1,613,118)
Allowance for foreclosure risk	(125,000)	0	(125,000)
Allowance for loan loss on non-AAR loans	(210,000)	0	(210,000)
Allowance for substitutions on AAR loans	(20,500)	0	(20,500)
Mortgage receivable - Net	\$ 2,779,837	\$ 226,569	\$ 2,553,268
	2017		
	Total	Current Portion	Long-Term Portion
Mortgage receivable - Gross	\$ 3,940,003	\$ 301,467	\$ 3,638,536
Less:			
Discount on mortgages receivable	(1,839,083)	(143,028)	(1,696,055)
Allowance for foreclosure risk	(204,000)	0	(204,000)
Allowance for loan loss on non-AAR loans	(167,000)	0	(167,000)
Allowance for substitutions on AAR loans	(32,000)	0	(32,000)
Mortgage receivable - Net	\$ 1,697,920	\$ 158,439	\$ 1,539,481

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE D - MORTGAGES RECEIVABLE (CONTINUED)

During the year ended December 31, 2018, 20 homes were sold to qualified families recognizing \$1,555,000 of revenue from the sales. During the year ended December 31, 2017, 9 homes were sold to qualified families recognizing \$743,000 of revenue from the sale.

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

NOTE E - ACCELERATED ASSET RECOVERY LOANS

As discussed in Note D, in prior years, certain mortgage receivables were sold by GCHFH to banks at discounted rates ranging from 51% to 70% of the outstanding balance. As a term of the agreements, GCHFH agreed to service the loans for the banks at no additional cost. Additionally, if any mortgage becomes more than 60 days delinquent, GCHFH has agreed to substitute the delinquent mortgage for a current mortgage. As such, an allowance for substitutions has been established as of December 31, 2018 and 2017 in the amount of \$20,500 and \$32,000, respectively.

During 2017, Habitat purchased 17 AAR mortgages from a bank in exchange for a \$300,000 note payable with the bank (as described in Note K) and recognized a gain on the exchange in the amount of \$387,400. The \$300,000 note payable was repaid during 2018. During the year ended December 31, 2017, another bank took over the servicing of 6 loans and released Habitat of any obligation to substitute delinquent mortgages. During 2018, Habitat purchased 2 loans from this bank for \$17,500 and recognized a gain on the purchase of mortgages for \$96,313.

During 2018, Funding Company issued and sold a secured note to an institutional purchaser pursuant to a note purchase agreement (see Note K) in the amount of \$1,204,938 and used the proceeds to purchase 27 homeowner notes from GCHFH. The homeowner notes are owned by Funding Company and were pledged to the note purchaser as security for the secured note. A gain of \$62,020 was recognized on the transaction. The mortgage notes are still being serviced by GCHFH, who also provides credit support.

As of December 31, 2018 and 2017, there are 16 and 21 mortgages, respectively, funding the portfolio balance with these financial institutions. The balance the banks expect GCHFH to collect and subsequently remit to them over the life of these sold mortgages amounted to \$257,266 and \$322,646, respectively, as of December 31, 2018 and 2017. Once these outstanding balances to the banks are fulfilled, any future mortgage collections on these mortgages will be retained by GCHFH. During the years ended December 31, 2018 and 2017 no banks exercised rights of recourse.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE F - PROPERTY AND EQUIPMENT

Property and equipment, as of the year ended December 31, 2018 and 2017 are comprised of the following:

	2018	2017
Office equipment	\$ 136,173	\$ 136,173
Leasehold improvements	68,303	50,915
Vehicles under capital lease	278,105	278,105
Vehicles	91,726	25,000
Construction equipment	109,358	63,918
	683,665	554,111
Less: Accumulated depreciation	448,541	378,152
	\$ 235,124	\$ 175,959

Depreciation expense for the years ended December 31, 2018 and 2017 totaled \$56,959 and \$48,570, respectively.

NOTE G - INVESTMENTS

The following is a summary of costs and fair values of assets held in GCHFH's investment portfolio as of December 31, 2018 and 2017.

	2018		
	Cost	Fair Value	Unrealized Gain (Loss)
Cash equivalents	\$ 1,368,497	\$ 1,368,497	\$ 0
Mutual funds	261,628	253,810	(7,818)
Exchange traded funds	510,925	503,125	(7,800)
	\$ 2,141,050	\$ 2,125,432	\$ (15,618)
	2017		
	Cost	Fair Value	Unrealized Gain (Loss)
Cash equivalents	\$ 270,712	\$ 270,712	\$ 0
Mutual funds	251,572	249,813	(1,759)
Exchange traded funds	500,300	496,783	(3,517)
	\$ 1,022,584	\$ 1,017,308	\$ (5,276)

NOTE H - FAIR VALUE MEASUREMENTS

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE H -FAIR VALUE MEASUREMENTS (CONTINUED)

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

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

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

The following table presents GCHFH’s fair value hierarchy by level for those assets and liabilities measured at fair value on a recurring basis as of December 31, 2018 and 2017.

	2018			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash equivalents	\$ 1,368,497	\$ 1,368,497	\$ 0	\$ 0
Mutual funds	253,810	253,810	0	0
Exchange traded	503,125	503,125	0	0
Total investments at fair value	2,125,432	2,125,432	0	0
Donated inventory at fair value	422,776	0	0	422,776
Assets held for sale (Note I)	9,400	0	0	9,400
Total assets at fair value	<u>\$ 2,557,608</u>	<u>\$ 2,125,432</u>	<u>\$ 0</u>	<u>\$ 432,176</u>
	2017			
	Fair Value	Level 1 Inputs	Level 2 Inputs	Level 3 Inputs
Cash equivalents	\$ 270,712	\$ 270,712	\$ 0	\$ 0
Mutual funds	249,813	249,813	0	0
Exchange traded	496,783	496,783	0	0
Total investments at fair value	1,017,308	1,017,308	0	0
Donated inventory at fair value	386,222	0	0	386,222
Assets held for sale (Note I)	37,497	0	0	37,497
Total assets at fair value	<u>\$ 1,441,027</u>	<u>\$ 1,017,308</u>	<u>\$ 0</u>	<u>\$ 423,719</u>

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE H -FAIR VALUE MEASUREMENTS (CONTINUED)

The following table presents a reconciliation of all Level 3 assets measured at fair value for the years ended December 31, 2018 and 2017:

	2018	2017
Balance at beginning of year	\$ 423,719	422,770
Donated house held for resale (Sold)	(28,097)	28,097
Inventory donations and sales, net	36,554	(27,148)
Balance at end of year	\$ 432,176	\$ 423,719

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

NOTE I - ASSETS HELD FOR RESALE

Property and land donated to GCHFH for the purpose of resale are recorded on the balance sheet at their estimated market value. GCHFH reviews all assets held for resale (as well as property and equipment) for impairment whenever changes in circumstances indicate that the carrying value of the assets may not be recoverable. Assets held for resale, as of December 31, 2018 and 2017 are comprised of the following:

	2018	2017
Donated land	\$ 9,400	\$ 9,400
Donated home	0	28,097
Total assets held for resale	\$ 9,400	\$ 37,497

NOTE J - LINE OF CREDIT

GCHFH has a line of credit with a bank. The line of credit bears interest at the Wall Street Journal Prime Rate plus .50% (6.00% and 5.00% as of December 31, 2018 and 2017, respectively). The line of credit is collateralized by the ReStore inventory. This line of credit was created in 2012 when GCHFH combined an existing line of credit with a mortgage loan. Amounts outstanding under the agreement were \$0 and \$103,423 as of December 31, 2018 and 2017, respectively. Subsequent to year end, the line of credit was closed and on March 25, 2019, GCHFH entered into a new line of credit agreement with a bank in the amount of \$250,000. The line of credit bears interest at the Wall Street Journal Prime Rate and is collateralized by essentially all the assets of GCHFH.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE K - NOTES PAYABLE

Long-term debt as of December 31, 2018 and 2017 is comprised of the following:

	2018	2017
Note payable to a bank, secured by 27 homeowner mortgages (See Note E). Payments due in monthly installments of \$6,408, without interest until September 2024 at which time payments decrease to \$6,104 per month until February 2029. Commencing in March 2029, the monthly payments decline gradually until the maturity date of June 2042.	\$ 1,214,767	\$ 0
Note payable to a bank, due in monthly installments of \$4,101, including interest at 4% per annum originally through August 2024. Note was secured by a collateral assignment of certain loans due to GCHFH, which are secured by certain mortgages that will be assigned to the Lender pursuant to the terms of a Collateral Assignment of Mortgages, Promissory Notes, and Other Loan Documents. The note was repaid in full during 2018.	0	290,667
Total Notes Payable	1,214,767	290,667
Less: Current maturities	76,894	38,278
	\$ 1,137,873	\$ 252,389

Required annual principal payments for the next five years as of December 31, 2018 are as follows:

2019	\$ 76,894
2020	76,894
2021	76,894
2022	76,894
2023	76,894
Thereafter	830,297
Total	\$ 1,214,767

NOTE L – CAPITAL AND OPERATING LEASES

As of December 31, 2018 and 2017, GCHFH has capital lease agreements to finance the purchase of various vehicles used in operations. The property is capitalized at the present value of the minimum lease payments.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE L – CAPITAL AND OPERATING LEASES (CONTINUED)

The original capitalized cost of the property under lease purchase agreements amounted to \$337,837 and \$278,104 as of December 31, 2018 and 2017, respectively. Accumulated depreciation on the property amounted to \$190,547 and \$140,204 as of December 31, 2018 and 2017, respectively.

The following is a schedule of the future minimum lease payments required under the capital leases and the present value of the minimum lease payments as of December 31, 2018:

2019		\$ 51,026
2020		42,512
2021		21,848
2022		14,278
2023		5,657
		135,321
Less: Amount representing interest		6,274
Present value of minimum lease payments		\$ 129,047

GCHFH leases land, office space, copiers, vehicles and warehouse space through operating lease agreements which expire through July 2028.

Rental expense under these operating lease agreements was \$367,002 and \$368,061 for the years ended December 31, 2018 and 2017, respectively.

As of December 31, 2018, the future minimum lease commitments under operating leases are as follows:

2019		\$ 364,342
2020		351,622
2021		351,166
2022		346,651
2023		341,830
Thereafter		1,041,861
		\$ 2,797,472

NOTE M – BOARD DESIGNATED FUNDS AND RESTRICTIONS ON NET ASSETS

It is the policy of the Board of Directors of GCHFH to designate appropriate sums of net assets without donor restrictions to ensure timely payment of certain liabilities. Since the board-designated funds resulted from an internal designation and is not donor-restricted, it is classified and reported as net assets without donor restrictions.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

**NOTE M – BOARD DESIGNATED FUNDS AND RESTRICTIONS ON NET ASSETS
(CONTINUED)**

Net assets with donor restrictions as of December 31, 2018 and 2017 are available for the following purposes:

	2018	2017
Restricted for future home rehabs	\$ 582,888	\$ 0
Restricted for Neighborhood Revitalization Program staffing	20,000	13,453
Restricted for Partner Family staffing	0	3,734
Total Net Assets With Donor Restrictions	\$ 602,888	\$ 17,187

NOTE N – RELATED PARTY TRANSACTIONS

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

During both the years ended December 31, 2018 and 2017, a sustainability fee of \$25,000 was charged by Habitat for Humanity International and paid by GCHFH.

NOTE O - DONATED GOODS AND SERVICES

The value of donated goods and services included in the financial statements for the years ended December 31, 2018 and 2017, are as follows:

	2018	2017
Inventory contributed for sale at <i>ReStore</i>	\$ 2,133,218	\$ 1,975,262
Donated homes for resale	0	28,097
Donated construction materials	1,620	66,054
	\$ 2,134,838	\$ 2,069,413

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

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE P – RETIREMENT PLAN

GCHFH adopted a 401(k) retirement plan effective January 1, 2016, covering all employees except those who work less than 1,000 hours in the relevant Eligibility Computation Period, as defined in the Plan Agreement. Participating employees may elect to contribute, on a tax-deferred basis or to an In-Plan Roth IRA, a portion of their compensation in accordance with section 401(k) of the Internal Revenue Code. Employees must have completed 6 months of service and be at least 21 years of age to be eligible on the entry date, which is the first date of each quarter. GCHFH provides matching contributions of 100% of each participant's elected deferral, not to exceed 3% of an employee's compensation, plus 50% of each employee's elective deferral in excess of 3% but not in excess of 5% of the participant's compensation. For the years ended December 31, 2018 and 2017, GCHFH's contributions, net of forfeitures, amount to \$73,441 and \$70,027, respectively.

NOTE Q - INCOME TAXES

GCHFH qualifies as a charitable organization under Section 501(c)(3) of the Internal Revenue Code, under a group exemption granted by Habitat for Humanity International, Inc. and operates as a public charity and accordingly, is exempt from income taxes. Funding Company was formed with a single member with the intent that it be a disregarded entity for the purpose of the Internal Revenue Code.

As of January 1, 2017 and for the year ended December 31, 2018 and 2017, GCHFH had not engaged in any activity which management considers to be activity that could result in a loss of its 501(c)(3) IRS designation.

Additionally, management does not consider any of the activity of GCHFH to be considered unrelated business income that could result in income tax. For the years ended December 31, 2018 and 2017, there was no tax interest or penalties reflected in the statement of activities or in the statement of financial position. GCHFH is no longer subject to U.S. federal, state, and local tax examinations by taxing authorities for years before 2015.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

NOTE R – LIQUIDITY

GCHFH's financial assets available within one year of the statement of financial position date for general expenditures are as follows:

Cash and cash equivalents	\$ 291,232
Accounts Receivable	72,317
Mortgages Receivable	
Current portion of mortgages receivable	364,872
Less: Current portion of discount on mortgages receivable	(138,303)
Unconditional promises to give - Without donor restrictions (current portion)	63,500
Investments	<u>2,125,432</u>
	<u>\$ 2,779,050</u>

In addition to the financial assets noted above, Habitat has \$402,888 of cash that is board designated for home builds and other operational costs, which may be used with consent of the board at any time. Habitat currently maintains two ReStore locations in which inventory is readily sold for unrestricted cash to be used for operations. Net assets with donor restrictions will generally be used in the next fiscal year on various purposes closely related to home builds and other operational costs. As described in Note J, as of December 31, 2018, Habitat has a line of credit; which was closed subsequent to year end and on March 25, 2019 a new line of credit was opened.



Board of Directors

Greater Cleveland Habitat for Humanity, Inc. and GCHFH Funding Company, LLC
Cleveland, Ohio

We have audited the consolidated financial statements of **Greater Cleveland Habitat for Humanity, Inc. and GCHFH Funding Company, LLC** as of and for the year ended December 31, 2018, and our report thereon dated March 25, 2019, which expressed an unmodified opinion on those financial statements, appears on page 1 and 2. Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The consolidating information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the consolidating information is fairly stated in all material respects in relation to the consolidated financial statements taken as a whole.

Zinner & Co. LLP

Beachwood, Ohio

March 25, 2019

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

CONSOLIDATING STATEMENT OF FINANCIAL POSITION

DECEMBER 31, 2018

	GCHFH	Funding Company	Eliminations	Total
Assets				
Cash and cash equivalents	\$ 291,232	\$ 0	\$ 0	\$ 291,232
Cash designated for home builds and other operational costs	402,888	0	0	402,888
Investments	1,174,527	950,905	0	2,125,432
Receivables				
Mortgages receivable	3,675,695	1,211,063	0	4,886,758
Escrows receivable	96,960	0	0	96,960
Discount and reserves for mortgages and escrows receivables	(2,106,921)	0	0	(2,106,921)
Unconditional promises to give - Without donor restrictions	88,621	0	0	88,621
Unconditional promises to give - With donor restrictions	200,000	0	0	200,000
Other receivables	72,317	0	0	72,317
Prepaid expenses and deposits	34,861	0	0	34,861
Investment in subsidiary	984,401	0	(984,401)	0
Inventories				
Materials inventory	99,000	0	0	99,000
ReStore inventory	422,776	0	0	422,776
Construction in progress				
Rehab homes	1,081,626	0	0	1,081,626
Anticipated loss on home builds	(18,709)	0	0	(18,709)
Property and equipment, net	235,124	0	0	235,124
Intercompany Receivable	0	39,876	(39,876)	0
Assets to be placed in service	10,000	0	0	10,000
Assets held for resale	9,400	0	0	9,400
Total Assets	<u>\$ 6,753,798</u>	<u>\$ 2,201,844</u>	<u>\$(1,024,277)</u>	<u>\$ 7,931,365</u>
Liabilities				
Accounts payable	\$ 110,029	\$ 0	\$ 0	\$ 110,029
Intercompany payable	39,876	0	(39,876)	0
Accrued expenses	99,944	0	0	99,944
Capital leases payable	129,047	0	0	129,047
Notes payable	0	1,214,767	0	1,214,767
Total Liabilities	378,896	1,214,767	(39,876)	1,553,787
Net Assets				
Without Donor Restrictions				
Donated capital	0	984,401	(984,401)	0
Available for programs and services	2,944,363	2,676	0	2,947,039
Allocated to affordable housing programs	2,827,651	0	0	2,827,651
Total Net Assets Without Donor Restrictions	5,772,014	987,077	(984,401)	5,774,690
With Donor Restrictions	602,888	0	0	602,888
Total Net Assets	6,374,902	987,077	(984,401)	6,377,578
Total Liabilities and Net Assets	<u>\$ 6,753,798</u>	<u>\$ 2,201,844</u>	<u>\$(1,024,277)</u>	<u>\$ 7,931,365</u>

See accompanying independent auditor's report on consolidating information.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

**CONSOLIDATING STATEMENT OF ACTIVITIES –
WITHOUT DONOR RESTRICTIONS**

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>GCHFH</u>	<u>Funding Company</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 1,868,667	\$ 0	\$ 0	\$ 1,868,667
Home sales, net	1,224,100	0	0	1,224,100
Gain on the purchase of mortgages	96,313	0	0	96,313
ReStore sales activity				
Gross sales	2,178,871	0	0	2,178,871
Donated inventory	2,133,218	0	0	2,133,218
Less: Cost of sales	(2,141,299)	0	0	(2,141,299)
Other donated goods and services	1,620	0	0	1,620
Special events				
Gross revenue	42,050	0	0	42,050
Less: Direct expenses	(8,979)	0	0	(8,979)
Rental income	1,271	0	0	1,271
Investment income	14,586	0	0	14,586
Service fees and other income	31,977	68,925	0	100,902
	<u>5,442,395</u>	<u>68,925</u>	<u>0</u>	<u>5,511,320</u>
Net assets released from restrictions:				
Satisfaction of program restrictions	17,187	0	0	17,187
Total Reclassifications	<u>17,187</u>	<u>0</u>	<u>0</u>	<u>17,187</u>
Total Support and Revenues	<u>5,459,582</u>	<u>68,925</u>	<u>0</u>	<u>5,528,507</u>
Expenses				
Program services	4,689,342	0	0	4,689,342
General and administrative	317,293	66,249	0	383,542
Fundraising and development	353,196	0	0	353,196
Total Expenses	<u>5,359,831</u>	<u>66,249</u>	<u>0</u>	<u>5,426,080</u>
Change in Net Assets	99,751	2,676	0	102,427
Net Assets at Beginning of Year	<u>5,672,263</u>	<u>0</u>	<u>0</u>	<u>5,672,263</u>
Net Assets at End of Year	5,772,014	2,676	0	5,774,690
Net Assets Without Donor Restrictions Allocated to Affordable Housing Programs	<u>(2,827,651)</u>	<u>0</u>	<u>0</u>	<u>(2,827,651)</u>
Net Assets Without Donor Restrictions Available for Programs and Services	<u>\$ 2,944,363</u>	<u>\$ 2,676</u>	<u>\$ 0</u>	<u>\$ 2,947,039</u>

See accompanying independent auditor's report on consolidating information.

**GREATER CLEVELAND HABITAT FOR HUMANITY, INC.
AND GCHFH FUNDING COMPANY, LLC**

**CONSOLIDATING STATEMENT OF ACTIVITIES –
WITH DONOR RESTRICTIONS**

FOR THE YEAR ENDED DECEMBER 31, 2018

	<u>GCHFH</u>	<u>Funding Company</u>	<u>Eliminations</u>	<u>Total</u>
Support and Revenues				
Contributions	\$ 602,888	\$ 0	\$ 0	\$ 602,888
	602,888	0	0	602,888
Net assets released from restrictions:				
Satisfaction of program restrictions	(17,187)	0	0	(17,187)
Total Reclassifications	(17,187)	0	0	(17,187)
Total Support and Revenues	585,701	0	0	585,701
Expenses				
Program services	0	0	0	0
General and administrative	0	0	0	0
Fundraising and development	0	0	0	0
Total Expenses	0	0	0	0
Change in Net Assets	585,701	0	0	585,701
Net Assets at Beginning of Year	17,187	0	0	17,187
Net Assets at End of Year	<u>\$ 602,888</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 602,888</u>

See accompanying independent auditor's report on consolidating information.