

HABITAT FOR HUMANITY OF
LAKE-SUMTER, FLORIDA, INC.
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of Lake-Sumter, Florida, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Lake-Sumter, Florida, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and the related statements of activities, 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.

Auditor's Responsibility

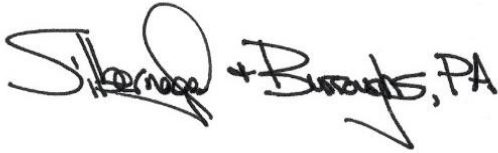
Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Lake-Sumter, Florida, Inc. as of June 30, 2016 and the changes 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 "Silvano + Burroughs, PA". The signature is written in a cursive, stylized font.

Mount Dora, FL
November 30, 2016

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

<u>ASSETS</u>	
Cash	\$ 804,190
Accounts receivable	5,000
Prepaid expenses	19,759
Building supplies	18,785
Escrow advances	18,469
Restricted cash	74,527
Investments	12,859
Mortgage notes receivable, net of discount	1,291,047
Pledged mortgage notes, net of discount	1,244,605
Land for future home sites	758,780
Construction in process	130,076
Land, buildings & equipment, net of accumulated depreciation	2,122,776
Promises to give	2,569
Intangible assets, net of accumulated amortization	7,705
Other assets	26,815
	26,815
TOTAL ASSETS	\$ 6,537,962
<u>LIABILITIES AND NET ASSETS</u>	
LIABILITIES:	
Accounts payable	\$ 28,463
Accrued expenses	53,470
Payroll liabilities	50,306
Sales tax liability	7,466
Line of credit	250,000
Escrow accounts	1,284
Notes payable	1,170,694
Total Liabilities	1,561,683
NET ASSETS:	
Unrestricted:	4,901,752
Temporarily Restricted:	
Restricted for Veterans Initiative	74,527
	74,527
Total Net Assets	4,976,279
TOTAL LIABILITIES AND NET ASSETS	\$ 6,537,962

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

UNRESTRICTED NET ASSETS

Revenues:	
Thrift store sales	\$ 1,523,147
Donations	192,186
Grants	296,300
In-kind donations	95,441
Fund-raising projects	38,777
Interest income	1,069
Unrealized gain (loss)	4,785
Mortgage discount amortization	209,746
Mortgage closings	380,000
House sponsorship	31,250
Global Village income	66,155
Rental income	2,000
Gain on fixed asset dispositions	138,463
Other income	<u>21,491</u>
 Total unrestricted revenues	 3,000,810
 Release of restricted net assets	 <u>50,679</u>
Total unrestricted revenues, gains, and other support	<u>3,051,489</u>
 Expenses:	
Thrift stores	1,110,184
Housing	663,135
General and administrative	461,630
Veterans Initiative	166,784
Global Village	137,077
Fund development	114,769
Community engagement	<u>140,067</u>
 Total expenses	 <u>2,793,646</u>
 INCREASE IN UNRESTRICTED NET ASSETS	 257,843
 TEMPORARILY RESTRICTED NET ASSETS	
Release of restricted net assets	<u>(50,679)</u>
 DECREASE IN TEMPORARILY RESTRICTED NET ASSETS	 <u>(50,679)</u>
 INCREASE IN NET ASSETS	 207,164
 NET ASSETS AT BEGINNING OF YEAR	 <u>4,769,115</u>
 NET ASSETS AT END OF YEAR	 <u>\$ 4,976,279</u>

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Thrift Stores	Housing	Administrative	Veterans Initiative	Global Village/VM	Fund Development	Preservation & Repairs	Total
Personnel	\$ 763,271	\$ 162,862	\$ 180,720	\$ 26,937	\$ 70,710	\$ 82,804	\$ 97,447	\$ 1,384,751
Advertising and newsletters	6,894	478	3,092	2,710	49	3,033	870	17,126
Community preservation	-	2,748	153	-	-	306	32,547	35,754
Construction goods and services	-	400,299	622	-	-	-	-	400,921
Credit card fees	27,827	-	723	(15)	-	-	-	28,535
Depreciation and amortization	63,098	22,085	10,283	-	14,791	-	-	110,257
Dues and subscriptions	28,308	27,066	60,368	7,520	14,030	7,107	1,188	145,587
Insurance	8,754	11,640	44,774	-	723	-	230	66,121
Legal and accounting	-	10,390	42,038	9,600	291	-	-	62,319
Loan interest	34,468	-	46,330	6,346	-	-	-	87,144
Merchandise and apparel	3,078	-	-	-	-	-	-	3,078
Minor equipment and tools	1,239	666	153	-	26	-	768	2,852
Office expense	15,851	194	3,800	89	2,119	317	462	22,832
Other expenses	6,021	1,363	7,625	176	7,661	3,216	-	26,062
Printing and postage	1,083	293	1,912	5,947	8	564	-	9,807
Property taxes	208	2,852	204	-	-	-	119	3,383
Rent	81	-	29,614	-	-	-	-	29,695
Repairs and maintenance	2,876	1,156	1,752	-	5,165	1,322	365	12,636
Special events	-	-	-	771	-	(461)	-	310
Tithe	-	-	-	-	-	10,000	-	10,000
Title transfer and recording fees	11	50	9	-	-	-	-	70
Training and conferences	733	250	8,695	-	500	540	414	11,132
Travel and mileage	1,926	171	1,174	1,664	131	705	209	5,980
Utilities	97,820	7,072	5,351	73	19,630	4,000	2,217	136,163
Vehicle operation and maintenance	46,267	11,434	12,238	-	1,160	1,255	3,231	75,585
Veterans Initiative direct cost	-	-	-	104,881	-	-	-	104,881
Volunteer costs	370	66	-	85	83	61	-	665
	<u>\$ 1,110,184</u>	<u>\$ 663,135</u>	<u>\$ 461,630</u>	<u>\$ 166,784</u>	<u>\$ 137,077</u>	<u>\$ 114,769</u>	<u>\$ 140,067</u>	<u>\$ 2,793,646</u>

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS USED FOR OPERATING ACTIVITIES

Increase in net assets	\$ 207,164
Adjustments to reconcile increase (decrease) in net assets to net cash used for operating activities:	
Depreciation	110,257
Amortization of discounts on loans receivable	(209,746)
Payments on loans receivable	405,775
Gain on house sales	(29,372)
Gain on disposal of property and equipment	(138,463)
Net unrealized gains on investments	(4,785)
(Increase) decrease in:	
Accounts receivable, net	11,697
Escrow advances	(8,287)
Prepaid expenses	13,397
Land used in building	(76,228)
Homes for resale	8,072
Homes for rent	17,810
Construction in process	(120,331)
Building supplies	62,631
Other assets	550
Increase (decrease) in:	
Accounts payable	(359)
Accrued expenses	(6,095)
Other liabilities	16,593
Escrow balances	(4,414)
Total adjustments	48,702
Net increase in cash from operating activities	255,866

CASH FLOWS FROM INVESTING ACTIVITIES:

Equipment purchases	(975)
Vehicle purchases	(100,340)
Building and land purchases and improvements	(269,269)
Proceeds from sale of building	405,673
Intangible purchase	(1,875)
Net increase in cash from investing activities	33,214

CASH FLOWS FROM FINANCING ACTIVITIES:

Loan proceeds	71,046
Line of credit proceeds	110,000
Note payments	(581,416)
Net decrease in cash from financing activities	(400,370)

NET DECREASE IN CASH (111,290)

CASH AT BEGINNING OF YEAR 990,007

CASH AT END OF YEAR \$ 878,717

Non-cash transactions for June 30, 2016 included in-kind construction materials of \$174,792 and interest paid was \$76,490.

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

A. Summary of Significant Accounting Policies

Organization and Purpose – Habitat for Humanity of Lake-Sumter, Florida, Inc. (the Organization), a nonprofit organization, was incorporated on October 13, 1989. The Organization is an affiliate of Habitat for Humanity International, Inc. a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications and prayer support, the Organization is primarily and directly responsible for its own operations. The Organization is a local organization which is supported by individuals, clubs, businesses, churches, and thrift store sales.

The Organization is a nonprofit organization described in Section 501(c)(3) of the Internal Revenue Code under a group exemption letter issued to Habitat International and is exempt from federal and state income taxes.

Basis of Presentation – The Organization has adopted FASB Accounting Standards Codification (ASC) 958 (formerly Statement of Financial Accounting Standards (SFAS) No. 117, “*Financial Statements of Not-for-Profit Organization*”). FASB ASC 958 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes into three net assets categories per externally (donor) imposed restrictions. A description of the three net asset categories is as follows:

Unrestricted net assets have no donor-imposed restrictions. Restricted net assets received and expended in the same year are classified as unrestricted.

Temporarily restricted net assets have donor-imposed restrictions that expire with the passage of time or that can be satisfied by use for the specific purpose.

Permanently restricted net assets are required by donors to be held in perpetuity, including gifts requiring that the principal be invested and the income or specific portions thereof be used for operations.

Expenses are generally reported as decreases in unrestricted net assets. Expirations of donor-imposed stipulations that simultaneously increase one class of net assets and decrease another are reported as transfers between the applicable classes of net assets. Restricted contributions whose restrictions are met in the same reporting period are reported as unrestricted contributions.

Fair Values of Financial Instruments – The following methods and assumptions were used by the Organization in estimating its fair value disclosures for financial instruments.

Cash and cash equivalents – The carrying amounts reported in the statement of financial position approximate fair value because of the short maturities of those instruments.

Mortgage notes receivable – They carrying amount approximates fair value, which is determined by discounting the future cash flows using rates that approximate the current rates at which similar loans would be made to borrowers with similar credit ratings and for the same remaining maturities.

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Interest income (amortization of the discount) is recorded using the effective interest method over the lives of the mortgage notes.

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

Cash and Cash Equivalents – The Organization considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Inventory – The Organization receives donations of building materials that would otherwise have to be purchased to complete house construction. The fair value of these goods is recognized as revenue and inventory when received. They are expensed as construction costs when used.

Investments – Investments consist of stocks donated by individuals. The stocks are marketable securities and are stated at fair value. Contributed investments and land are recorded at their fair value at the date of donations. Sales of investments and associated gains or losses are accounted for using the specific identification method.

Fair Value Measurements – The Organization has adopted FASB ASC 820, which clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participant would use in pricing an asset or liability. As a basis for considering such assumptions, ASC 820 establishes a three-tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1: Inputs to the valuation methodology are unadjusted quotes prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in the active markets; quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

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

The asset's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used to maximize the use of observable inputs and minimize the use of unobservable inputs.

In accordance with FASB ASC 820, the Organization measures cash and cash equivalents and marketable securities at fair value. Realized and unrealized gains and losses on marketable securities are determined by using specific identification.

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Fair value for securities that are traded on a national securities exchange is based upon the last reported sales price on the last business day of the year. Fair value for investments traded in the over-the-counter market, and listed securities for which no sale was reported on that date, is based upon average of the last reported bid and ask price.

Promises to Give – Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Land for Future Home Sites – These parcels are held by the Organization to be used for future home building sites. Donated parcels are recorded at appraised valuation. Purchased and foreclosed parcels are recorded at cost. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable. No impairment losses were recorded during 2016.

Construction in Process – All direct material and equipment costs and those indirect costs related to home construction are recorded as construction in process on the statement of financial position. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities as program services.

Property and Equipment – It is the Organization’s policy to capitalize property and equipment over \$500. Lesser amounts are expensed. Property and equipment are recorded at cost if purchased or at their estimated fair value at date of donation. Depreciation is provided using the straight-line method over the following estimated useful lives:

Building and Improvements	10 – 40 years
Office Equipment, Furniture & Fixtures	5 – 7 years

Warranties – The Organization provides a one-year warranty covering general defects in materials and workmanship on each home sold. Warranty costs are expensed when incurred.

B. Cash Restrictions

Funds received for the Organization’s Veterans Initiative program are donor restricted. As of June 30, 2016, \$74,527 was restricted.

C. Accounts Receivable

Accounts receivable represents amounts due from clients and vendors. Due to the nature of the receivable, prior years’ experience and analysis of the specific receivables, management believes that the amounts are fully collectible; therefore, no allowance for doubtful accounts has been recorded.

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
 NOTES TO THE FINANCIAL STATEMENTS
 JUNE 30, 2016

D. Investments

The following table sets forth by level, within the fair value hierarchy, the Organization's investments at fair value as of June 30, 2016:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Domestic Common Stock	\$ 12,859	-	-

E. Sales to Homeowners

During the year ending June 30, 2016, there were 4 homes sold to qualifying applicants. Home closings for June 30, 2016 were \$380,000, and mortgage discounts relating to these sales were \$0 for the fiscal year ending 2016 as all homeowner received third party financing.

F. Mortgage Notes Receivable

Mortgage notes receivable consist of noninterest-bearing mortgage notes which are secured by real estate and payable in monthly installments. Most of the mortgage notes have an original maturity of 20 to 30 years and arose in connection with the Organization's homebuilding initiatives in Lake and Sumter Counties of Florida. As the payments are received, the discount is amortized to recognize the imputed interest portion of each payment. The amortization of the discount is shown as mortgage discount amortization revenue on the statement of activities. Amortization included as revenue for the fiscal year amounted to \$209,746. Mortgage notes receivable at June 30, 2016 are presented net of unamortized discount resulting from the imputation of interest, as follows:

	<u>2016</u>
Mortgage notes receivable at face value	\$ 4,900,812
Less unamortized discount ranging from 6% to 10%	<u>(2,365,160)</u>
	<u><u>\$ 2,535,652</u></u>

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

These mortgages notes will be received as follows:

Year Ending June 30,	
2017	\$ 375,024
2018	375,024
2019	375,024
2020	375,024
2021 and thereafter	<u>3,400,716</u>
	<u>\$4,900,812</u>

The Organization received \$405,775 in total mortgage principal and interest payments during the fiscal year ending June 30, 2016.

G. Pledged Receivables

The Organization pledged the following amounts as collateral for loans:

	<u>2016</u>
Flex 2015 mortgage notes at face value	\$ 1,166,782
Flex 2014 mortgage notes at face value	529,676
Flex 2013 mortgage notes at face value	833,313
Mortgage notes discount	<u>(1,285,166)</u>
	<u>\$ 1,244,605</u>

I. Foreclosures

The Organization is in the process of foreclosing on one of its homes as of June 30, 2016. The current mortgage note balance is valued at \$47,496. The Organization has one homeowner in bankruptcy as of June 30, 2016. The current mortgage note balance is valued at \$39,084.

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

J. Land, Buildings and Equipment

Land, buildings and equipment are comprised of the following at June 30:

	<u>2016</u>
Land, building and improvements	\$ 2,469,453
Office equipment, furniture & fixtures	140,704
Transportation equipment	<u>220,300</u>
	2,830,457
Less accumulated depreciation	<u>(707,681)</u>
	<u><u>\$ 2,122,776</u></u>

K. Notes Payable and Line of Credit

The following is a summary of notes payable at June 30:

	<u>2016</u>
4.75% note payable to Habitat for Humanity International, Inc., \$4,393 monthly installments with a maturity date of June 2025, secured by mortgage notes receivable.	\$ 384,235
3.80% note payable to Habitat for Humanity International, Inc., \$16,554 quarterly installments with a maturity date of June 2020, secured by mortgage notes receivable.	244,637
4.75% note payable to Habitat for Humanity International, Inc. \$7,610 quarterly installments with a maturity date of June 2024 secured by mortgage notes receivable.	201,617
4.25% Fixed rate line of credit secured by real estate. Interest only payments in monthly installments with a maturity date of December 2018.	250,000
4.75% Fixed rate mortgage note secured by real estate. Monthly installments of \$2,079 with a maturity date of May 2024.	163,834

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

4.75% Fixed rate mortgage note secured by real estate. Monthly installments of \$4,591 with a maturity date of June 2024.	119,689
4.2% Fixed rate truck loan. Monthly installments of \$1,613 with a maturity date of August 2019.	<u>56,682</u>
Total notes payable	<u><u>\$ 1,420,694</u></u>

Scheduled principal payments are as follows:

Year ending June 30,	
2017	\$ 193,860
2018	452,612
2019	191,048
2020	152,152
2021 - thereafter	<u>431,022</u>
	<u><u>\$ 1,420,694</u></u>

L. Lease

The Organization occupies its office facilities under an operating lease expiring March 2019 at a monthly rental of \$2,500. As of June 30, 2016, the future rental payments required under this operating lease are as follows:

Year ending June 30,	
2017	\$ 30,000
2018	30,000
2019	<u>25,000</u>
	<u><u>\$ 85,000</u></u>

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

M. Temporarily Restricted Net Assets

At June 30, 2016, temporarily restricted net assets consisted of \$74,527 restricted for the Veterans Initiative.

N. In-Kind Contributions

The Organization receives numerous in-kind contributions of materials and supplies used in the construction and furnishings of homes. Supplies and materials contributed during the year ended June 30, 2016 totaled \$95,441.

The Organization receives donations of time and effort from volunteers to construct the homes, operate the thrift stores and serve as family partners. The value of these services is not reflected in the financial statements. Last fiscal year, over 1,200 volunteers contributed their services.

The Organization also receives donations of items which are sold through its four thrift store locations. The value of these items is not reflected in the financial statements.

P. Related Party Transactions

The Organization remits a portion of its contributions (excluding in-kind contributions) to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. The Organization contributed \$25,000 to Habitat International for the year ended June 30, 2016, of which \$10,000 was for title and is reported under program expenses.

The Organization contracted with a Board member for legal work in the amount of \$21,337 and as of year-end owed \$447. The Organization contracted with a board member for the use of facilities for Board meetings and special events in the amount of \$19,939.

Q. Retirement Plan

The Organization has a Simple IRA retirement plan funded by employees' voluntary contributions. Starting in May 2012, the Organization may contribute up to 3% of employee earnings or contributions, whichever is less. The Organization contributed \$13,843 to the retirement plan for the year ended June 30, 2016.

R. Other Matters

Deposits at FDIC-insured institutions are insured up to \$250,000 per account. At June 30, 2016, the Organization's uninsured bank balances totaled \$160,727.

S. Subsequent Events

Subsequent events have been evaluated through November 30, 2016 which is the date the financial statements were available to be issued. No material subsequent events were identified for recognition or disclosure.

HABITAT FOR HUMANITY OF LAKE-SUMTER, FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

T. Restatement of Net Assets

The previously issued financial statements have been restated in order to properly reflect certain financial statement accounts as of June 30, 2015. The following net adjustments were made:

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Beginning Net Assets	2,127,018	3,047,491	5,174,509
Correction of error	2,516,891	(2,922,285)	(405,394)
Beginning Net Assets, as restated	4,653,346	125,206	4,769,115
Change in net assets	257,843	(50,679)	207,164
Ending Net Assets	<u>4,901,752</u>	<u>74,527</u>	<u>4,976,279</u>

Accounts affected include the Organization's building supplies, land for future home sites, mortgage notes receivable, prepaid expenses, and escrow advances.