

**HABITAT FOR HUMANITY
OF HILLSBOROUGH COUNTY FLORIDA, INC.**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2016



FINANCIAL STATEMENTS
JUNE 30, 2016

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Hillsborough County Florida, Inc.
Tampa, Florida

We have audited the accompanying financial statements of Habitat for Humanity of Hillsborough County Florida, Inc. (a Not-For-Profit Entity), which comprise the statement 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 in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Hillsborough County 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.

Accell Audit & Compliance, PA

Tampa, Florida
October 28, 2016

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current assets

Cash and cash equivalents	\$ 838,602
Assets held in escrow	93,239
Grants receivable	20,645
Other receivables	24,486
Prepaid expenses	11,964
Mortgage notes receivable net of discounts, due within one year	24,951
Inventory - construction and ReStore	169,897
Total current assets	1,183,784

Non-current assets

Mortgage notes receivable net of discounts, due after one year	835,499
Inventory - land held for development	69,445
Property and equipment, net	810,485
Deposits	19,586
Total non-current assets	1,735,015

Total assets	\$ 2,918,799
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LIABILITIES AND NET ASSETS

Current liabilities

Accounts payable	\$ 59,721
Accrued expenses	56,748
Deferred rent	70,485
Escrow funds payable	93,429
Agency payable	89,867
Current portion of note payable - related party	5,616
Current portion of notes payable	76,892
Total current liabilities	452,758

Long-term liabilities

Note payable - related party, less current portion	383
Notes payable, less current portion	268,101
Total long-term liabilities	268,484

Total liabilities	721,242
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Net assets

Unrestricted	2,046,578
Temporarily restricted	150,979
Total net assets	2,197,557

Total liabilities and net assets	\$ 2,918,799
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See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support			
ReStore sales	\$ 1,414,704	\$ -	\$ 1,414,704
In-kind contributions	164,606	188,012	352,618
Contributions	71,734	134,329	206,063
Grant funding	152,628	-	152,628
	<u>1,803,672</u>	<u>322,341</u>	<u>2,126,013</u>
Other revenue			
Sale of home	431,786	-	431,786
Mortgage discount amortization	6,550	-	6,550
Gain on sale of assets	157,301	-	157,301
Other	20,806	-	20,806
	<u>616,443</u>	<u>-</u>	<u>616,443</u>
Net assets released from restrictions	<u>238,862</u>	<u>(238,862)</u>	<u>-</u>
Total public support and other revenue	<u>2,658,977</u>	<u>83,479</u>	<u>2,742,456</u>
EXPENSES			
Program services	2,271,949	-	2,271,949
Supporting services:			
Management and general	513,357	-	513,357
Fundraising	128,578	-	128,578
	<u>2,913,884</u>	<u>-</u>	<u>2,913,884</u>
Change in net assets	(254,907)	83,479	(171,428)
Net assets, beginning of year	<u>2,301,485</u>	<u>67,500</u>	<u>2,368,985</u>
Net assets, end of year	<u>\$ 2,046,578</u>	<u>\$ 150,979</u>	<u>\$ 2,197,557</u>

See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services				Supporting Services			TOTAL
	Rehab and Construction	Family Services	ReStore	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Personnel expenses	\$ 175,361	\$ 70,406	\$ 651,559	\$ 897,326	\$ 103,504	\$ 233,840	\$ 337,344	\$ 1,234,670
Other Expenses								
Admin and general	28,450	72,434	114,054	214,938	15,263	100,260	115,523	330,461
Cost of home/land sales	712,183	-	-	712,183	-	5,825	5,825	718,008
Facilities	13,131	432	262,558	276,121	477	40,128	40,605	316,726
Cost of goods sold, Restore	-	-	67,178	67,178	-	-	-	67,178
Home rehabilitation	8,891	-	-	8,891	-	-	-	8,891
Interest	-	-	4,698	4,698	-	9,478	9,478	14,176
Special events	280	-	726	1,006	5,712	913	6,625	7,631
Other	9,895	27,091	28,162	65,148	3,360	115,961	119,321	184,469
Total expenses before Other non-cash items	948,191	170,363	1,128,935	2,247,489	128,316	506,405	634,721	2,882,210
Depreciation	5,398	-	19,062	24,460	262	6,952	7,214	31,674
Total Functional Expenses	\$ 953,589	\$ 170,363	\$ 1,147,997	\$ 2,271,949	\$ 128,578	\$ 513,357	\$ 641,935	\$ 2,913,884

See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (171,428)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Depreciation	31,674
(Increase) decrease in assets:	
Assets held in escrow	(6,164)
Grant receivable - related party	36,000
Grants receivable	(1,288)
Pledges receivable	7,500
Other receivables	41,961
Prepaid expenses	5,908
Mortgage notes receivable, net of discounts	196,728
Inventory - construction and ReStore	(47,654)
Inventory - land held for development	71,912
Deposits	(2,379)
Increase (decrease) in liabilities:	
Accounts payable	45,914
Accrued expenses	12,043
Deferred rent	61,675
Escrow funds payable	6,354
Agency payable	14,809
Net cash from operating activities	303,565

CASH FLOWS FROM INVESTING ACTIVITIES:

Acquisition of property and equipment	(126,976)
Net cash used in investing activities	(126,976)

CASH FLOWS FROM FINANCING ACTIVITIES:

Payments on note payable - related party	(5,616)
Proceeds from notes payable	168,000
Payments on note payable	(61,315)
Net cash used in financing activities	101,069

Net change in cash and cash equivalents	277,658
Cash and cash equivalents, beginning of year	560,944
Cash and cash equivalents, end of year	\$ 838,602

NONCASH TRANSACTION:

Equipment purchased through debt agreement	\$ 28,354
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SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	\$ 14,175
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See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 1 NATURE OF ORGANIZATION

Habitat for Humanity International, Inc. ("HFHI") was founded in 1976 by Millard and Linda Fuller. The concept of Habitat for Humanity is that each Habitat Affiliate and those in need of adequate shelter would work side-by-side with volunteers to build affordable, decent homes. Habitat for Humanity of Hillsborough County Florida, Inc. ("Habitat" or the "Organization") became an Affiliate in 1987 and is a tax-exempt Not-for-Profit organization. Seeking to put God's love into action, Habitat brings people together to build homes, communities, and hope.

Habitat's Program Services include its home construction program, a thrift retail operation (d.b.a. the ReStore), and family service programs, all of which are provided principally to residents in Hillsborough County.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Habitat has adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 958, *Not-for-Profit Entities* ("ASC 958"). Under ASC 958, Habitat is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. As such, Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and, if applicable, permanently restricted net assets.

Revenue Recognition

Contributions are recognized as revenue when the gifts' underlying promises are received by Habitat. Habitat reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or a specific purpose. When a donor restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Sale of home represents a home built by Habitat. When homes are sold to qualified buyers who finance the purchase, the resulting mortgage notes are zero-interest bearing and discounted based upon prevailing market rates at the inception of the mortgages. The gross sale amount is included as the sale of home in the statement of activities and the applicable discount from this note is presented as the mortgage discount amortization in the statement of activities. When homes or land are sold to buyers in the form of a cash sale, the gross sale amount is included in the sale of home in the statement of activities. In the year ended June 30, 2016, there was one home sold to a buyer in the form of a cash sale. Habitat recognizes the income from the sale

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

of homes on the completed contract method when home closings occur.

Habitat accounts for grants and contracts as exchange transactions. Revenue is recognized as an increase in the statement of activities as stipulated performance is executed, or as expenditures are incurred in accordance with applicable agreements under expenditure reimbursement contracts. A receivable is recorded to the extent contract revenue exceeds payment received. Advances in excess of costs incurred are deferred and recognized as revenue when the related expense is incurred.

Support arising from donated, or in-kind, goods, property, and services is recognized in the financial statements at its fair value. GAAP requires recognition of in-kind services, if such services (1) create or enhance nonfinancial assets or (2) require specialized skills and are provided by individuals possessing those skills, who would typically charge a fee. For the year ended June 30, 2016, there was approximately \$81,000 and \$272,000 recorded in the accompanying financial statements for in-kind goods and services, respectively. Habitat utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under GAAP.

ReStore sales are recognized as revenue at the time merchandise is transferred to the customer. Historically, sales returns have not been significant.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Habitat considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

Assets Held in Escrow

Habitat currently services the mortgage notes on the homes it sells. Included in assets held in escrow are cash amounts received for insurance and property taxes on such homes. These cash amounts are recorded as an asset, which is offset by a related liability.

Mortgage Notes Receivable

Sales of homes are recorded at the gross amount of payments to be received over the lives of the mortgages. These payments do not include interest. The notes have been discounted at various interest rates using the effective interest method over the lives of the mortgages. Mortgages are reported net of amortized cost. No allowance for doubtful accounts is considered necessary as past experience and management's estimation indicates an adequate allowance for such accounts is immaterial (see Note 3).

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Inventory

ReStore inventory, which consists of merchandise donated by building supply stores and by individuals in the community, is stated at lower of cost or market value. With few exceptions, the donated items are used, resulting in an undeterminable market value. For these items, inventory is not recorded. The sale of these items, referred to as ReStore sales on the statement of activities, is recorded at point of sale.

Habitat's inventory also includes construction inventory, construction in process, and land held for construction which is recorded at the lower of cost or market value.

Construction in Process – ReStore Leasehold Improvements

Construction in process for leasehold improvements is recorded at cost, net of lessor contributions as provided for in the lease agreement. Habitat has a policy of capitalizing expenditures for leasehold improvements with costs greater than \$500. Depreciation is provided using the straight-line method over the estimated useful lives of assets or the lease term, whichever is less. Depreciation will commence when the ReStore being leased ("ReStore II") begins operations.

Property and Equipment

Property and equipment are recorded at cost or, if donated, the estimated fair value at the date of donation. Habitat has a policy of capitalizing expenditures for property and equipment with costs greater than \$500. Depreciation is provided using the straight-line method over the estimated useful lives of assets which range from 3 to 39 years. If donors stipulate how long the assets must be used or restrict the use of such assets for a specific purpose, the contributions are recorded as restricted support. In the absence of such stipulations, gifts of property are recorded as unrestricted support.

Net Assets

Habitat's net assets for the year ended June 30, 2016 are classified into two categories: (1) unrestricted net assets, which include no donor-imposed restrictions and (2) temporarily restricted net assets, which include donor-imposed restrictions that will expire in the future.

The unrestricted net assets consist of operating funds available for any purpose authorized by the Board of Directors (the "Board").

Temporarily restricted net assets consist of funds arising from gifts in which the donor has stipulated, as a condition of the gift, restrictions on how or when the gift may be spent. At June 30, 2016, Habitat had \$150,979 of temporarily restricted net assets.

Gifts and Contributions

Gifts and contributions are recorded at their fair market value on the date of receipt. Gifts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset categories. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Concentration of Credit Risk

Financial instruments that potentially subject Habitat to concentrations of credit risk consist primarily of bank deposits and mortgages receivable.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
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Habitat maintains bank accounts with balances which, at times, may exceed federally insured limits. As of June 30, 2016, Habitat had approximately \$393,000 of uninsured cash. Habitat has not experienced any losses on such accounts, and believes it is not exposed to any significant risk on bank deposit accounts.

Habitat has the ability to foreclose on delinquent mortgages, reducing the risk of loss to the Organization.

Functional Expenses

Certain direct, indirect, and administrative expenses are incurred which benefit more than one program. The Organization, therefore, allocates these expenses accordingly using time charged to employees and other various methods.

Federal Income Tax

Habitat is exempt from federal and state income taxes under Section 501(c)(3) and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated Habitat's tax position and concluded that no uncertain tax positions have been taken that would require adjustment to the financial statements to comply with the provisions of the Income Tax Topic of the FASB ASC. With few exceptions, Habitat is subject to income tax examinations by the U.S. federal or state tax authorities up to three years after tax returns are filed.

NOTE 3 MORTGAGES RECEIVABLE

Habitat holds 20 mortgages receivable for properties it has sold to qualified buyers. These mortgages have maturity dates ranging from 1 to 30 years. The notes on these mortgages are non-interest bearing, payable in equal monthly installments, and are secured by deeds of trust on the properties. The payments collected on these mortgages are used to help fund future home construction. The notes have been discounted at the prevailing market rate at the inception of the mortgage using the effective interest method over the lives of the mortgages. As mortgage payments are made, Habitat recognizes the amortization of the discount as revenue.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

Mortgages receivable as of June 30, 2016 are as follows:

Mortgage notes receivable at face value	\$ 1,423,974
Less unamortized discounts on mortgage notes	<u>(563,524)</u>
 Mortgage notes receivable, net of discounts	 <u>\$ 860,450</u>

Principal payments on the mortgages receivable balance are expected to be received as follows:

Year ending June 30,	
2017	\$ 24,951
2018	26,038
2019	25,346
2020	26,587
2021	27,907
Thereafter	<u>729,621</u>
Total	<u>\$ 860,450</u>

During the year ended June 30, 2016, Habitat sold two properties to qualified buyers at a zero-interest mortgage that is being financed, approximately \$277,000, by Habitat. Habitat recorded a discount of approximately \$109,000 on these mortgages.

Periodically, Habitat sells individually identified mortgages receivable to financial institutions. Habitat continues to service these receivables by collecting payments from homeowners on behalf of the purchasing financial institutions. Homeowner payments are remitted by Habitat to the purchasing financial institutions in arrears. Accordingly, Habitat has reported an agency payable liability in the amount of approximately \$90,000 as of June 30, 2016. This reflects the homeowner payments held by Habitat that must be subsequently remitted to the purchasing financial institutions. For the year ended June 30, 2016, Habitat sold five of its mortgages.

NOTE 4 INVENTORY

Inventory consists of the following as of June 30, 2016:

Land held for development	\$ 69,445
Construction in process	116,207
Supplies and materials	14,526
ReStore inventory	<u>39,164</u>
Total inventory	<u>\$ 239,342</u>

Due to the changing conditions in the real estate market, management conducted a review of its land held for development. Management has concluded that the fair value of this land approximates its cost.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2016:

Building	\$ 457,392
Leasehold improvements	117,354
Land	364,550
Equipment	46,863
Office equipment	16,605
Automobile	38,354
	1,041,118
Less accumulated depreciation	(230,633)
Total property and equipment, net	\$ 810,485

Depreciation expense for the year ended June 30, 2016 was approximately \$32,000.

NOTE 6 NOTE PAYABLE – RELATED PARTY

During 2011, Habitat entered into a promissory note agreement with HFHI under which it could borrow up to \$22,500. This promissory note agreement was entered into as part of the Self-Help Homeownership Opportunity Program (“SHOP”) affiliate sub-grant agreement in which, through HFHI, Habitat was awarded \$90,000 to be used to pay eligible expenses with respect to land acquisition and infrastructure improvements, with 25% of the award due to HFHI. As of June 30, 2016, the total amount due to HFHI was approximately \$6,000, and is recorded as a note payable – related party on the statement of financial position. This promissory note is non-interest bearing with the total principal to be paid in full before January 1, 2018.

Future principal maturities on note payable – related party are as follows:

Year ending June 30,	Amount
2017	5,616
2018	383
Total	\$ 5,999

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2016

NOTE 7 NOTE PAYABLE

Note payable consists of the following as of June 30, 2016:

Note payable, collateralized by a mortgage, payable in monthly installments of \$2,126, including interest at 4.6% per annum, beginning November 2013 through October 2018.	\$ 193,917
Note payable, collateralized by a vehicle, payable in monthly installments of \$443, including interest at 3.98% per annum, beginning August 2015 through July 2021.	23,476
Note payable in monthly installments of \$4,924, including interest at 3.52% per annum, beginning August 2015 through September 2018.	<u>127,600</u>
Total notes payable	\$ 344,993
Less current portion	<u>(76,892)</u>
Notes payable, less current portion	<u>\$ 268,101</u>

Future principal maturities on the note payable are as follows:

Year ending June 30,	Amount
2017	\$ 76,892
2018	79,853
2019	178,071
2020	4,987
2021	<u>5,190</u>
Total	<u>\$ 344,993</u>

NOTE 8 LINE OF CREDIT

Habitat has a line of credit with a lending institution. The line is in the amount of \$50,000 with no maturity date. As of June 30, 2016, there were no amounts outstanding on the line of credit.

NOTE 9 CONTINGENCY

Habitat is subject to federal audits to determine compliance with grant funding requirements. In the event that expenditures are disallowed, repayment could be required. Government grants require the fulfillment of certain conditions as set forth by applicable laws, rules and regulations and in the grant agreements. Failure to fulfill the conditions could result in the return of the funds to the grantor.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
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In addition, during the normal course of business, the Organization may be exposed to potential liabilities related to its homebuilding and community development activities. Management is unaware of any matters requiring accrual of related losses in the financial statements. This assessment, however, may change and matters of which management is unaware may exist.

NOTE 10 COMMITMENTS

In an effort to further Habitat's mission, the Organization entered into several contractual agreements, generally cancelable with 7 to 30 days written notice, with outside vendors and service providers.

NOTE 11 OPERATING LEASES

Habitat had multiple lease obligations during the year ended June 30, 2016, which expire on various future dates. These leases include rent and a copy machine. Lease expense for these operating leases for the year ended June 30, 2016 was approximately \$109,081.

The following is a schedule by years of the future minimum lease payments:

Year ending June 30,	Amount
2017	\$ 122,280
2018	124,620
2019	126,156
2020	129,576
2021	133,104
Thereafter	<u>187,722</u>
Total	<u>\$ 823,458</u>

NOTE 12 SUBSEQUENT EVENTS

In accordance with FASB ASC 855, the Company evaluated subsequent events through October 28, 2016, the date the financial statements were available for issue.