

**HABITAT FOR HUMANITY OF
FRANKLIN COUNTY**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED

DECEMBER 31, 2016

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity of Franklin County
Chambersburg, Pennsylvania

We have audited the accompanying financial statements of Habitat for Humanity of Franklin County (a nonprofit organization), which comprise the statement of financial position as of December 31, 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Franklin County as of December 31, 2016, and the changes in its net assets and cash flows for the year ended in accordance with accounting principles generally accepted in the United States of America.

Rotz & Stonesifer, P.C.

Chambersburg, Pennsylvania
November 22, 2017

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

STATEMENT OF FINANCIAL POSITION

December 31, 2016

ASSETS

Current Assets

Cash	\$ 197,914
Cash - restricted	13,740
Prepaid expenses	8,960
Inventory	53,156
Houses under construction	72,564
Mortgages receivable - current portion - net	46,923
Total Current Assets	<u>393,257</u>

Property & Equipment

Construction equipment	2,900
Office equipment	11,817
Signage	3,677
Store equipment	13,848
Vehicles	34,129
	<u>66,371</u>
Less accumulated depreciation	<u>23,961</u>
Net Property & Equipment	<u>42,410</u>

Other Assets

Mortgages receivable - net of current portion & discounts	944,844
Land for development	86,118
Security deposits	1,000
Total Other Assets	<u>1,031,962</u>

TOTAL ASSETS	<u><u>\$ 1,467,629</u></u>
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LIABILITIES AND NET ASSETS**Current Liabilities**

Accounts payable	\$ 10,111
Escrow liability	13,740
Payroll liabilities	6,362
Accrued payroll	9,880
Total Current Liabilities	<u>40,093</u>

Net Assets

Unrestricted	<u>1,427,536</u>
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TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 1,467,629</u></u>
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See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

STATEMENT OF ACTIVITIES

For the Year Ended December 31, 2016

	<u>Unrestricted</u>
Revenues	
Non-cash donations	\$ 462,772
ReStore sales	433,239
Home sales	381,000
Contributions	210,156
Land sales	105,000
Imputed interest on mortgages receivable	35,402
Miscellaneous	1,035
Interest income	14
Total Revenues	<u>1,628,618</u>
Expenses	
Program services	1,419,364
Management & general	70,776
Fundraising	31,389
Total Expenses	<u>1,521,529</u>
Change in Net Assets	107,089
Net Assets - Beginning - As Originally Reported	1,585,543
Prior Period Adjustment	<u>(265,096)</u>
Net Assets - Beginning - As Restated	<u>1,320,447</u>
Net Assets - Ending	<u><u>\$ 1,427,536</u></u>

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended December 31, 2016

	Program Services	Management & General	Fundraising	Total
Cost of goods sold	\$ 431,571	\$ -	\$ -	\$ 431,571
Cost of home sales	421,433	-	-	421,433
Payroll expenses	192,015	25,988	25,988	243,991
Mortgage discounts	141,522	-	-	141,522
Rent	59,850	15,900	-	75,750
Cost of land sales	72,208	-	-	72,208
ReStore expenses	40,288	-	-	40,288
Advertising	15,198	611	-	15,809
Insurance	14,197	1,578	-	15,775
Tithing - national	9,786	-	-	9,786
Depreciation	8,033	797	-	8,830
Repairs	-	8,160	-	8,160
Licenses & filing fees	7,500	-	-	7,500
Professional fees	-	5,236	-	5,236
Mileage reimbursement	3,061	2,041	-	5,102
Office	-	4,776	-	4,776
Printing & reproduction	-	-	3,422	3,422
Telephone	1,804	1,203	-	3,007
Postage & delivery	-	660	1,979	2,639
Conferences & registrations	-	1,967	-	1,967
Dues & subscriptions	-	1,021	-	1,021
Utilities	898	-	-	898
Miscellaneous	-	452	-	452
Bank service charges	-	222	-	222
Credit check	-	164	-	164
Total Expenses	\$ 1,419,364	\$ 70,776	\$ 31,389	\$ 1,521,529

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

STATEMENT OF CASH FLOWS

For the Year Ended December 31, 2016

Cash Flows from Operating Activities:

Change in net assets	\$ 107,089
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation	8,830
Mortgage discounts	141,522
Imputed interest on mortgages receivable	(35,402)
Net (increase) decrease in:	
Prepaid expenses	(1,255)
Inventory	(9,901)
Mortgages receivable	(306,823)
Property held for resale	60,339
Houses under construction	128,279
Security deposits	(140)
Net increase (decrease) in:	
Accounts payable	(1,734)
Escrow liability	(1,028)
Payroll liabilities & withholdings	2,563
Accrued payroll	8,853
Net Cash Provided by Operating Activities	<u>101,192</u>
Cash Flows from Investing Activities:	
Purchases of property & equipment	<u>(26,195)</u>
Net Change in Cash	74,997
Cash - Beginning	<u>136,657</u>
Cash - Ending	<u><u>\$ 211,654</u></u>

See accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization

Habitat for Humanity of Franklin County, formed in 1993, is a Christian not-for-profit organization created to work with donors, volunteers, and homeowners to provide decent affordable housing for those in need in Franklin County, and to make shelter a matter of conscience with people in Franklin County.

Basis of Accounting

The financial statements of Habitat for Humanity of Franklin County have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The Organization reports information regarding its financial position and activities according to three classes of net assets that are based upon the existence or absence of restrictions on use that are placed by its donors: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Restricted contributions meeting their restrictions in the same year are presented as unrestricted. The Organization had no temporarily restricted net assets or permanently restricted net assets as of December 31, 2016.

Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash and cash equivalents include all highly liquid investments with an initial maturity of three months or less.

Inventory

Inventory, at the ReStore, consists of donated building materials and household appliances and goods. Items are valued based on subsequent sales, which approximates fair value.

Mortgages Receivable

The Organization has financed mortgages to homeowners, collateralized by first mortgages recorded as liens against the properties sold to the homeowner by the Organization. A valuation discount, based on the prime rate at date of purchase, has been recorded to reflect an interest rate for valuation purposes. The Organization deems all receivables to be collectible.

Equipment

Equipment is recorded at cost, or if donated, at fair value at the date of donation. Depreciation is provided on the straight-line method over the estimated useful lives of the assets, which range from five to seven years. Expenditures for repairs and maintenance are charged to expense as incurred, whereas major improvements are capitalized and recorded at cost.

Houses under Construction and Land for Development

All costs related to each project are recorded as either houses under construction or land for development. As the homes and/or land are sold, the accumulated costs for the homes and/or land are removed from houses under construction or land for development.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Escrow Liability

The Organization collects funds from the homeowners and holds them in escrow. Payments are made on behalf of the homeowners for real estate taxes and homeowners insurance on a semi-annual and annual basis, respectively.

Sales Tax

The Organization collects sales tax. The amount received is recorded in a liability account and as payments are made, the liability is reduced. The balance is recorded in accounts payable on the statement of financial position.

Donated Materials

Donated materials for construction projects are recorded as non-cash contributions in the statement of activities. They are recorded at fair market value.

Donated Services

The contributions of services are recognized if the services received (a) create or enhance non-financial assets or (b) require specialized skills that are provided by individuals possessing those skills and would typically need to be purchased if not provided by donation. The Organization receives donated services from unpaid volunteers assisting the Organization with the construction and renovation of the homes. This volunteer time is not recognized in the accompanying statement of activities, because these services do not meet the criteria for recognition as contributed services.

Home Sales

Home sales are recorded at the gross mortgage amount plus down payment received. Non-interest bearing mortgages have been discounted based upon the prime rate at the inception of the mortgage. The discount will be recognized over the term of the mortgage.

Advertising Costs

Advertising and marketing costs are expensed as incurred.

Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. In addition, the Organization has been determined by the Internal Revenue Service not to be a "private foundation" within the meaning of Section 509(a) of the Internal Revenue Code.

The Organization is subject to potential examination by the Internal Revenue Service and various state taxing authority. However, the Organization is not currently under audit nor has the Organization been contacted by any of these jurisdictions. Management believes the Organization is no longer subject to tax examination for years prior to 2014. The Organization has evaluated its tax positions for all open tax years and management believes all material tax positions taken would be upheld under examination. Therefore, no provision for the effects of uncertain tax positions has been recorded for the year end December 31, 2016. If assessed, the Organization classifies any interest and penalties recognized with a tax position as expenses.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - continued

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain 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 these estimates.

Date of Management Evaluation

Management has evaluated subsequent events through November 22, 2017, the date which the financial statements were available to be issued.

NOTE 2: CONCENTRATIONS OF CREDIT RISK

The Organization maintains its cash balances at BB&T and F&M Trust. The balances, at times, are periodically in excess of the \$250,000 limit insured by the Federal Deposit Insurance Corporation. As of December 31, 2016, the Organization had no uninsured cash balances.

The Organization receives the majority of its revenues from contributions from businesses, churches, and individuals and from the sale of homes in the local geographic area.

NOTE 3: MORTGAGES RECEIVABLE

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
Amdeta	0%	8.25%	Residence	\$ 38,316
Represents a 240-month mortgage note receivable dated December 2006 in the original amount of \$73,000. The loan requires monthly principal payments of \$304.				
Appenzellar	0%	5.50%	Residence	15,197
Represents a 240-month mortgage note receivable dated October 2001 in the original amount of \$55,190. The loan requires monthly principal payments of \$229.				

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 3: MORTGAGES RECEIVABLE – continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
Arevalo Represents a 300-month mortgage note receivable dated February 2016 in the original amount of \$127,980. The loan requires monthly principal payments of \$427.	0%	3.50%	Residence	123,941
Culum Represents a 293-month mortgage note receivable dated November 1998 in the original amount of \$53,600. The loan requires monthly principal payments of \$183.	0%	7.75%	Residence	13,850
Curtis Represents a 300-month mortgage note receivable dated October 1999 in the original amount of \$55,000. The loan requires monthly principal payments of \$183.	0%	8.25%	Residence	21,346
Espinosa Represents a 240-month mortgage note receivable dated August 2005 in the original amount of \$68,900. The loan requires monthly principal payments of \$287.	0%	6.50%	Residence	29,831
Flasher Represents a 240-month mortgage note receivable dated June 2001 in the original amount of \$60,000. The loan requires monthly principal payments of \$200.	0%	7.00%	Residence	4,700
Flores Represents a 300-month mortgage note receivable dated November 2013 in the original amount of \$80,000. The loan requires monthly principal payments of \$267.	0%	3.25%	Residence	70,902

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 3: MORTGAGES RECEIVABLE – continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
Gomez Represents a 300-month mortgage note receivable dated February 2015 in the original amount of \$112,830. The loan requires monthly principal payments of \$376.	0%	3.25%	Residence	104,932
Hoke Represents a 360-month mortgage note receivable dated August 2016 in the original amount of \$130,000. The loan requires monthly principal payments of \$360.	0%	3.50%	Residence	128,920
Horn Represents a 232-month mortgage note receivable dated October 2000 in the original amount of \$53,000. The loan requires monthly principal payments of \$229.	0%	9.50%	Residence	16,950
Hummer Represents a 180-month mortgage note receivable dated December 2010 in the original amount of \$48,650. The loan requires monthly principal payments of \$271.	0%	3.25%	Residence	26,800
Hykes Represents a 204-month mortgage note receivable dated October 2001 in the original amount of \$38,133. The loan requires monthly principal payments of \$188.	0%	5.50%	Residence	4,008
Jarjour Represents a 360-month mortgage note receivable dated January 1997 in the original amount of \$51,891. The loan requires monthly principal payments of \$144.	0%	8.25%	Residence	12,897

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 3: MORTGAGES RECEIVABLE – continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
Kovach Represents a 300-month mortgage note receivable dated July 2012 in the original amount of \$61,883. The loan requires monthly principal payments of \$206.	0%	3.25%	Residence	51,469
Lascase Represents a 240-month mortgage note receivable dated November 2014 in the original amount of \$86,686. The loan requires monthly principal payments of \$361.	0%	3.25%	Residence	75,416
Louis Represents a 264-month mortgage note receivable dated October 2015 in the original amount of \$123,090. The loan requires monthly principal payments of \$466.	0%	3.25%	Residence	116,451
Mahmoud Represents a 360-month mortgage note receivable dated July 2002 in the original amount of \$64,200. The loan requires monthly principal payments of \$178.	0%	4.75%	Residence	33,462
Plummer Represents a 360-month mortgage note receivable dated September 2016 in the original amount of \$128,324. The loan requires monthly principal payments of \$356.	0%	3.50%	Residence	127,975
Pittman Represents a 360-month mortgage note receivable dated April 2006 in the original amount of \$66,100. The loan requires monthly principal payments of \$184.	0%	7.75%	Residence	44,381

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 3: MORTGAGES RECEIVABLE – continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
Sanchez Represents a 300-month mortgage note receivable dated August 2009 in the original amount of \$72,000. The loan requires monthly principal payments of \$240.	0%	3.25%	Residence	49,471
Seville Represents a 300-month mortgage note receivable dated November 2011 in the original amount of \$70,805. The loan requires monthly principal payments of \$236.	0%	3.25%	Residence	56,835
Strock Represents a 240-month mortgage note receivable dated December 2006 in the original amount of \$73,000. The loan requires monthly principal payments of \$304.	0%	8.25%	Residence	39,185
Thomas Represents a 240-month mortgage note receivable dated October 2010 in the original amount of \$82,125. The loan requires monthly principal payments of \$343. In December 2012, an additional \$15,000 was loaned on the mortgage for sewer improvements.	0%	3.25%	Residence	73,059
Wall Represents a 240-month mortgage note receivable dated January 2013 in the original amount of \$80,000. The loan requires monthly principal payments of \$333.	0%	3.25%	Residence	67,666

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 3: MORTGAGES RECEIVABLE – continued

	<u>Interest Rate</u>	<u>Discount Rate</u>	<u>Collateral</u>	<u>Amount</u>
Williams	0%	3.25%	Residence	60,600
Represents a 240-month mortgage note receivable dated September 2013 in the original amount of \$72,000. The loan requires monthly principal payments of \$300.				
Total mortgages receivable				1,408,560
Less discount				416,793
Total mortgages receivable less discount				991,767
Less current portion				46,923
Mortgages receivable - net of current portion				<u>\$ 944,844</u>

At times the mortgagee's escrow balance reaches a deficit balance and that balance is added to the mortgage balance. This does not result in an increase in monthly principal payments.

In addition, the Organization has obtained second mortgages on all the properties in which they have a mortgage receivable. The second mortgages have the same term as the first mortgages. For each month that a payment is made on the first mortgage, a payment on the second mortgage is forgiven. If all payments are made on the first mortgage, no payments are required under the second mortgage.

NOTE 4: NON-CASH DONATIONS

Non-cash donations include such items as donated materials, services and real estate, which are recorded as contributions at their fair values at the date of donation. Non-cash donations reported in the financial statements include donated materials and labor valued at \$15,678 and donated services valued at \$300 for the year ended December 31, 2016. There was no donated real estate in 2016.

Non-cash donations received for ReStore amounted to \$441,472 for 2016. These donations are recorded as inventory and expensed when sold. If items are not sold within 45 days, they are disposed.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 5: LINES OF CREDIT

Habitat for Humanity of Franklin County has an outstanding line of credit from BB&T that provides a borrowing limit of \$50,000. The line carries a rate at the Wall Street Journal Prime Rate, with a minimum of 4.00%. The line must be rested for thirty consecutive days per year. There was no balance on the line of credit at December 31, 2016.

Habitat for Humanity of Franklin County also has an outstanding line of credit from F&M Trust that provides a borrowing limit of \$50,000. The line carries a rate at the Wall Street Journal Prime Rate, with a minimum of 4.00%. There was no balance on the line of credit at December 31, 2016.

NOTE 6: LEASE COMMITMENTS

The Organization leased office space under an annual, non-cancelable operating lease which expired December 31, 2012 with a monthly cost of \$586. The Organization extended the lease on a month to month basis for the period beginning January 1, 2013 to September 1, 2013. On September 1, 2013 the Organization entered into a new annual, non-cancelable operating lease which expired on September 30, 2014 with a monthly cost of \$860. The Organization extended this lease for a three year term set to expire on September 30, 2017 with a monthly cost of \$884 in the first year, \$890 in the second year and the amount to be determined for the third year. The Organization did not renew this lease as of September 30, 2016.

On June 1, 2016, the Organization entered into a non-cancelable operating lease for office space for one year. The rental costs \$1,000 per month. The lease will renew for an additional twelve months, upon the same terms.

On April 7, 2016, the Organization entered into a non-cancelable operating lease for storage space for one year. The rental costs \$300 per month. The lease will renew for an additional twelve months, upon the same terms.

On September 4, 2014, the Organization entered into a non-cancelable operating lease for the ReStore building, which began on October 5, 2014 and is set to expire on October 4, 2019 with a monthly cost of \$4,500. Under the lease agreement, the first two months were free and the third and fourth months were prepaid in the amount of \$9,000. The future minimum lease payments under operating leases are as follows:

Years Ending December 31

2017	\$ 69,600
2018	59,900
2019	40,500
	<u>\$ 170,000</u>

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 7: RESTORE FACILITY

The Organization has a ReStore facility which accepts donated home improvements and home furnishing items and sells them for amounts below market value. A summary of the ReStore transactions for 2016 is as follows:

Donations	\$ 441,472
Sales	433,239
Cost of Sales	(431,571)
Gross Profit	<u>443,140</u>
Store Operating Expenses:	
Compensation	114,053
Rent expense	59,850
Other expenses	40,288
Advertising	15,198
Depreciation	<u>8,033</u>
Total Store Operating Expenses	<u>237,422</u>
Net Profit	<u><u>\$ 205,718</u></u>

NOTE 8: RETIREMENT PLAN

The Organization has a SIMPLE IRA that covers substantially all full-time employees. Eligible employees have the right to make elective contributions, subject to annual limits detailed in the Internal Revenue Code. The Organization has elected to make matching contributions up to 3% of compensation. The employer contribution to the plan for the year ended December 31, 2016 amounted to \$5,852.

NOTE 9: CONTINGENCIES

The Organization received grant funding for the purchase and renovation of property to be sold to a qualified, low-income person/family. If the property is sold by the owner/occupant during the affordability period of fifteen years certain requirements and restrictions apply. If the property is sold within the affordability period the owner/occupant must (1) sell on the open market, in which the proceeds will be used to satisfy the mortgage and any other expenses initially incurred, (2) sell to another qualified, low-income person/family, or (3) the Organization may purchase the property back, in which the sale price will be the same as the amount of the balance due on the first mortgage.

HABITAT FOR HUMANITY OF FRANKLIN COUNTY

NOTES TO FINANCIAL STATEMENTS

For the Year Ended December 31, 2016

NOTE 10: PRIOR PERIOD ADJUSTMENT

In previously issued financial statements, the Organization prepared the financial statements in accordance with the basis of accounting the Organization uses for income tax purposes. The Organization is now following accounting principles generally accepted in the United States of America. This change required several prior period adjustments for assets and liabilities that were not previously reported on the financial statements. They are listed as follows:

Prepaid expenses	\$ 7,112
Inventory	43,255
Mortgage receivable discounts	(310,673)
Accounts payable	(3,762)
Accrued payroll	(1,028)
	<u>\$ (265,096)</u>