# HABITAT FOR HUMANITY OF
# LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED FINANCIAL REPORT

## SEPTEMBER 30, 2016

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

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MAULDIN & JENKINS

# INDEPENDENT AUDITOR'S REPORT

**To the Board of Directors**
**Habitat for Humanity of Lee and Hendry Counties, Inc.**
**North Fort Myers, Florida**

We have audited the accompanying consolidated financial statements of **Habitat for Humanity of Lee and Hendry Counties, Inc.** (a nonprofit organization) ("Habitat"), which comprise the consolidated statements of financial position as of September 30, 2016 and 2015, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

**Management's Responsibility for the 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 significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Lee and Hendry Counties, Inc. as of September 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 2, 2016

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
## SEPTEMBER 30, 2016 AND 2015

| **Assets** | **2016** | 2015 |
|---|---|---|
| Cash and cash equivalents | | |
| Operating | **$ 3,786,066** | $ 1,468,799 |
| Escrow funds | **171,649** | 117,821 |
| Pledge and accounts receivable | **102,940** | 325,532 |
| Grants receivable | **30,962** | 268,000 |
| Investments for gift annuity obligations | **178,503** | 188,352 |
| Prepaid expenses and deposits | **98,400** | 121,110 |
| Building materials inventory | **198,256** | 236,224 |
| First and second mortgages receivable, net of an allowance for loan losses of $2,830,973 and $2,997,648 for 2016 and 2015, respectively | **5,496,081** | 7,406,330 |
| Land held for home sites | **3,434,321** | 2,207,775 |
| Construction in progress | **3,742,166** | 2,704,600 |
| Property and equipment, net | **8,985,740** | 9,812,281 |
| **Total assets** | **$ 26,225,084** | $ 24,856,824 |

| **Liabilities and Net Assets** | | |
|---|---|---|
| Liabilities: | | |
| Accounts payable and other accrued liabilities | **$ 558,949** | $ 662,038 |
| Escrow accounts payable | **171,649** | 117,821 |
| Annuity obligations payable | **133,447** | 135,793 |
| Long-term debt | **3,570,325** | 3,729,493 |
| **Total liabilities** | **4,434,370** | 4,645,145 |
| Net assets: | | |
| Unrestricted: | | |
| Undesignated | **21,369,582** | 19,767,685 |
| Board designated | **366,538** | 263,538 |
| Total unrestricted | **21,736,120** | 20,031,223 |
| Temporarily restricted | **54,594** | 180,456 |
| **Total net assets** | **21,790,714** | 20,211,679 |
| **Total liabilities and net assets** | **$ 26,225,084** | $ 24,856,824 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
## YEAR ENDED SEPTEMBER 30, 2016

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Changes in unrestricted net assets** | | | |
| Revenue and support: | | | |
| Contributions | | | |
| Cash and pledge contributions | $ 3,173,757 | $ - | $ 3,173,757 |
| Materials and services | 1,353,216 | - | 1,353,216 |
| Home donations | 42,192 | - | 42,192 |
| Land donations | 211,620 | - | 211,620 |
| Special events (less direct expenses of $42,817) | 248,400 | - | 248,400 |
| Grants and subsidies | 894,763 | - | 894,763 |
| Application fees | 81,278 | - | 81,278 |
| Retail store sales | 2,280,107 | - | 2,280,107 |
| Amortization of mortgage discounts | 154,782 | - | 154,782 |
| Interest income | 4,475 | - | 4,475 |
| Rental income | 877,719 | - | 877,719 |
| Change in gift annuities | (7,503) | - | (7,503) |
| Gain on sale of land held for home sites | 143,121 | - | 143,121 |
| Loss on disposal of fixed assets | (3,647) | - | (3,647) |
| Miscellaneous revenue | 35,838 | - | 35,838 |
| Net assets released from restriction | 125,862 | (125,862) | - |
| | 9,615,980 | (125,862) | 9,490,118 |
| Transfers to homeowners for mortgage loans | 4,748,568 | - | 4,748,568 |
| Total revenue and support | 14,364,548 | (125,862) | 14,238,686 |
| **Expenses** | | | |
| Program services | | | |
| Construction | 8,661,052 | - | 8,661,052 |
| Retail stores | 1,558,501 | - | 1,558,501 |
| Family services | 548,455 | - | 548,455 |
| Rentals | 1,024,243 | - | 1,024,243 |
| Total program service expenses | 11,792,251 | - | 11,792,251 |
| Administrative and general | 319,690 | - | 319,690 |
| Fundraising | 213,725 | - | 213,725 |
| Total administrative and general and fundraising expenses | 533,415 | - | 533,415 |
| Impairment loss | 333,985 | - | 333,985 |
| **Changes in net assets** | 1,704,897 | (125,862) | 1,579,035 |
| **Net assets - beginning of year** | 20,031,223 | 180,456 | 20,211,679 |
| **Net assets - end of year** | $ 21,736,120 | $ 54,594 | $ 21,790,714 |

**See Notes to Consolidated Financial Statements.**

## HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

### CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
### YEAR ENDED SEPTEMBER 30, 2015

| | Unrestricted | Temporarily Restricted | Total |
|---|---|---|---|
| **Changes in unrestricted net assets** | | | |
| Revenue and support: | | | |
| Contributions | | | |
| Cash and pledge contributions | $ 2,493,938 | $ - | $ 2,493,938 |
| Materials and services | 1,384,154 | - | 1,384,154 |
| Home donations | 105,581 | - | 105,581 |
| Land donations | 37,183 | - | 37,183 |
| Special events (less direct expenses of $72,537) | 402,659 | - | 402,659 |
| Grants and subsidies | 1,553,180 | - | 1,553,180 |
| Application fees | 103,658 | - | 103,658 |
| Retail store sales | 1,873,369 | - | 1,873,369 |
| Amortization of mortgage discounts | 175,159 | - | 175,159 |
| Interest income | 3,116 | - | 3,116 |
| Rental income | 913,504 | - | 913,504 |
| Change in gift annuities | (17,211) | - | (17,211) |
| Loss on sale of land held for home sites | 214,900 | - | 214,900 |
| Loss on disposal of fixed assets | 8,372 | - | 8,372 |
| Miscellaneous revenue | 96,605 | - | 96,605 |
| Net assets released from restriction | 119,734 | (119,734) | - |
| | 9,467,901 | (119,734) | 9,348,167 |
| Transfers to homeowners for mortgage loans | 3,940,140 | - | 3,940,140 |
| Total revenue and support | 13,408,041 | (119,734) | 13,288,307 |
| **Expenses** | | | |
| Program services | | | |
| Construction | 8,285,119 | - | 8,285,119 |
| Retail stores | 1,337,388 | - | 1,337,388 |
| Family services | 626,072 | - | 626,072 |
| Senior housing | 979,297 | - | 979,297 |
| Total program service expenses | 11,227,876 | - | 11,227,876 |
| Administrative and general | 302,078 | - | 302,078 |
| Fundraising | 208,251 | - | 208,251 |
| Total administrative and general and fundraising expenses | 510,329 | - | 510,329 |
| Impairment loss | 322,249 | - | 322,249 |
| Mortgage loan loss expense | 20,663 | - | 20,663 |
| **Changes in net assets** | 1,326,924 | (119,734) | 1,207,190 |
| **Net assets - beginning of year** | 18,704,299 | 300,190 | 19,004,489 |
| **Net assets - end of year** | $ 20,031,223 | $ 180,456 | $ 20,211,679 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
## YEAR ENDED SEPTEMBER 30, 2016

| | Program Services | | | | Total | Administrative | | |
|---|---|---|---|---|---|---|---|---|
| | Construction | Retail Stores | Family services | Rentals | Program Services | and General | Fundraising | Total |
| Construction costs | $ 8,520,405 | $ - | $ - | $ - | $ 8,520,405 | $ - | $ - | $ 8,520,405 |
| Direct program expenses | | | | | | | | |
| Volunteer department | 179,949 | - | - | - | 179,949 | - | - | 179,949 |
| Tithe to Habitat for Humanity International | 179,380 | - | - | - | 179,380 | - | - | 179,380 |
| Program indirect expenses | | | | | | | | |
| Communication | 46,397 | 46,397 | 46,397 | 46,397 | 185,588 | - | - | 185,588 |
| Development | - | - | - | - | - | - | 213,725 | 213,725 |
| Cost of retail store sales | - | 1,428,437 | - | - | 1,428,437 | - | - | 1,428,437 |
| Family services costs | - | - | 340,327 | - | 340,327 | - | - | 340,327 |
| Mortgage expenses | - | - | 161,731 | - | 161,731 | - | - | 161,731 |
| Rental costs | - | - | - | 755,634 | 755,634 | - | - | 755,634 |
| Office and other salaries | - | - | - | - | - | 157,475 | - | 157,475 |
| Insurance | - | - | - | - | - | 10,344 | - | 10,344 |
| Mortgage interest | - | - | - | - | - | 3,827 | - | 3,827 |
| Office operations | - | - | - | - | - | 55,451 | - | 55,451 |
| Maintenance | - | - | - | - | - | 8,071 | - | 8,071 |
| Real estate taxes and fees | - | - | - | - | - | 23,467 | - | 23,467 |
| Utilities | - | - | - | - | - | 11,943 | - | 11,943 |
| Miscellaneous | - | - | - | - | - | 8,654 | - | 8,654 |
| Total functional expenses before depreciation | 8,926,131 | 1,474,834 | 548,455 | 802,031 | 11,751,451 | 279,232 | 213,725 | 12,244,408 |
| Depreciation | 68,906 | 83,667 | - | 222,212 | 374,785 | 40,458 | - | 415,243 |
| Total functional expenses | $ 8,995,037 | $ 1,558,501 | $ 548,455 | $ 1,024,243 | $ 12,126,236 | $ 319,690 | $ 213,725 | $ 12,659,651 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
## YEAR ENDED SEPTEMBER 30, 2015

| | Program Services | | | | Total | Administrative | | |
|---|---|---|---|---|---|---|---|---|
| | Construction | Retail Stores | Family services | Rentals | Program Services | and General | Fundraising | Total |
| Construction costs | $ 8,136,798 | $ - | $ - | $ - | $ 8,136,798 | $ - | $ - | $ 8,136,798 |
| Direct program expenses | | | | | | | | |
| Volunteer department | 169,756 | - | - | - | 169,756 | - | - | 169,756 |
| Tithe to Habitat for Humanity International | 195,864 | - | - | - | 195,864 | - | - | 195,864 |
| Program indirect expenses | | | | | | | | |
| Communication | 45,137 | 45,137 | 45,137 | 45,137 | 180,548 | - | - | 180,548 |
| Development | - | - | - | - | - | - | 208,251 | 208,251 |
| Cost of retail store sales | - | 1,224,806 | - | - | 1,224,806 | - | - | 1,224,806 |
| Family services costs | - | - | 486,678 | - | 486,678 | - | - | 486,678 |
| Mortgage expenses | - | - | 114,920 | - | 114,920 | - | - | 114,920 |
| Rental costs | - | - | - | 703,627 | 703,627 | - | - | 703,627 |
| Office and other salaries | - | - | - | - | - | 140,825 | - | 140,825 |
| Insurance | - | - | - | - | - | 6,438 | - | 6,438 |
| Mortgage interest | - | - | - | - | - | 9,282 | - | 9,282 |
| Office operations | - | - | - | - | - | 37,460 | - | 37,460 |
| Maintenance | - | - | - | - | - | 9,266 | - | 9,266 |
| Real estate taxes and fees | - | - | - | - | - | 30,120 | - | 30,120 |
| Utilities | - | - | - | - | - | 15,649 | - | 15,649 |
| Miscellaneous | - | - | - | - | - | 22,379 | - | 22,379 |
| Total functional expenses before depreciation | 8,547,555 | 1,269,943 | 646,735 | 748,764 | 11,212,997 | 271,419 | 208,251 | 11,692,667 |
| Depreciation | 59,813 | 67,445 | - | 230,533 | 357,791 | 30,659 | - | 388,450 |
| Total functional expenses | $ 8,607,368 | $ 1,337,388 | $ 646,735 | $ 979,297 | $ 11,570,788 | $ 302,078 | $ 208,251 | $ 12,081,117 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES:** | | |
| Cash received from contracts and donations | **$ 14,693,841** | $ 13,087,899 |
| Cash payments for program and support services | **(18,753,693)** | (15,739,833) |
| Cash received for interest | **4,475** | 3,116 |
| Cash payments for interest | **(131,625)** | (142,416) |
| Net cash (used in) operating activities | **(4,187,002)** | (2,791,234) |
| **CASH FLOWS FROM INVESTING ACTIVITIES:** | | |
| Purchase of property and equipment | **(124,352)** | (71,046) |
| Proceeds from the sale of property and equipment | **260,000** | 32,650 |
| Proceeds from the sale of mortgages | **6,148,511** | 2,473,491 |
| Mortgage payments received | **473,373** | 494,953 |
| Net cash provided by investing activities | **6,757,532** | 2,930,048 |
| **CASH FLOWS FROM FINANCING ACTIVITIES:** | | |
| Annuity payments | **(22,693)** | (61,695) |
| Proceeds from notes payable | **116,275** | 176,751 |
| Principal payments on notes and mortgages payable | **(346,845)** | (216,918) |
| Net cash (used in) financing activities | **(253,263)** | (101,862) |
| Increase in cash and cash equivalents | **2,317,267** | 36,952 |
| Cash and cash equivalents, beginning of year | **1,468,799** | 1,431,847 |
| Cash and cash equivalents, end of year | **$ 3,786,066** | $ 1,468,799 |
| **SUPPLEMENTAL DATA FOR NONCASH INVESTING AND FINANCING ACTIVITIES** | | |
| Property and equipment acquired with debt financing | **$ 71,402** | $ 177,764 |

**See Notes to Consolidated Financial Statements.**

# HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

## CONSOLIDATED STATEMENTS OF CASH FLOWS
## YEARS ENDED SEPTEMBER 30, 2016 AND 2015

| | 2016 | 2015 |
|---|---|---|
| Changes in net assets | $ 1,579,035 | $ 1,207,190 |
| Adjustments to reconcile changes in net assets to net cash (used in) operating activities | | |
| Depreciation | 415,243 | 388,450 |
| Impairment loss | 333,985 | 322,249 |
| Mortgage loan loss expense | - | 20,663 |
| Loss on sale of mortgages receivable and foreclosures | - | 12,600 |
| Issuance of first and second mortgages receivable less discount | (4,711,635) | (4,088,940) |
| (Gain) loss on disposal of property and equipment | 3,647 | (8,372) |
| Gain on sale of land held for homesites | (143,121) | (214,900) |
| Donated land held for home sites | (211,620) | (37,183) |
| Donated homes | (42,192) | (105,581) |
| Donated materials and services | (289,689) | (448,329) |
| Donated stock investments | (30,237) | (35,288) |
| (Increase) decrease in assets | | |
| Pledges and accounts receivable | 222,592 | 21,827 |
| Grants receivable | 237,038 | (268,000) |
| Charitable annuity split-interest agreements | 62,779 | 160,870 |
| Prepaid expenses and deposits | 22,710 | (37,768) |
| Building materials inventory | 140,261 | 189,089 |
| Land held for home sites | (838,575) | 679,437 |
| Construction in progress | (831,788) | (712,541) |
| Increase (decrease) in liabilities | | |
| Accounts payable and other accrued liabilities | (103,089) | 170,969 |
| Annuity obligations payable | (2,346) | (7,676) |
| Net cash (used in) operating activities | $ (4,187,002) | $ (2,791,234) |

**See Notes to Consolidated Financial Statements.**

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

### Organization

Habitat for Humanity of Lee and Hendry Counties, Inc. ("Habitat") is a non-profit organization funded by public contributions. The Organization was incorporated on October 8, 1982, and is dedicated to providing low income home ownership in Lee County and Hendry County, Florida, for those families who cannot otherwise afford a decent place to live.

Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian, not-for-profit organization whose purpose is to create 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, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations. Habitat has chosen to contribute a tithe on undesignated revenue received to Habitat International, as part of the affiliation.

### Significant Accounting Policies

### Principles of Consolidation

The consolidated financial statements include all of the accounts and activity of Habitat for Humanity of Lee and Hendry Counties, Inc., Majorca Palms, LLC, HFHLHC Funding Company I, LLC, and Habitat Harlem Heights, LLC. All transactions between the above entities have been eliminated in consolidation and the above entities are collectively referred to as the "Organization."

Majorca Palms, LLC (formerly known as "Habitat for Humanity Senior Housing, LLC") was incorporated under the laws of the state of Florida in 2007 for the purpose of operating the rental complexes. In 2014, Habitat changed the name of Habitat for Humanity Senior Housing, LLC to Majorca Palms, LLC. Habitat is the sole member of the Majorca Palms, LLC.

HFHLHC Funding Company I, LLC was incorporated under the laws of the state of Florida in 2014 for the purpose of securitizing twenty-one mortgage notes that were sold in 2014 (see Note 5). Habitat is the sole member of the HFHLHC Funding Company I, LLC.

Habitat Harlem Heights, LLC was incorporated under the laws of the state of Florida in 2016 for the purpose of developing and constructing future home-sites. Habitat is the sole member of the Habitat Harlem Heights, LLC.

### Cash and Cash Equivalents

For purposes of the consolidated statements of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

### Temporarily Restricted Net Assets

Temporarily restricted net assets are those resources currently available for use, but expendable only for purposes specified by the donor. Such resources originate from contributions restricted for specific purposes.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Gifts and Contributions

Habitat records contributions upon receipt of an unconditional promise to give, less an allowance for uncollectible amounts and an allowance for the present value of gifts to be received over more than one year. Gifts, bequests, and other promises or receipts restricted by donors as to use or time period are recorded as temporarily restricted net assets until used in the manner designated or upon expiration of the time period. Donated property and equipment are recorded at fair market value at the date received as unrestricted or restricted net assets, based on the donor's intent. When the assets are used for their intended purposes, the applicable amount is transferred to unrestricted net assets. Unrestricted contributions received are recorded as contribution revenue.

### Grants and Subsidies

Habitat recognizes grants and subsidies as revenue in the period earned. For grants that are reimbursement basis, Habitat records revenue and a receivable when the condition identified in the grant has been completed. As of September 30, 2016 and 2015, Habitat has grants receivable of $30,962 and $268,000, respectively.

### Investments for Gift Annuity Obligations

Habitat is a named beneficiary under certain charitable gift annuity arrangements. Under these arrangements, Habitat receives the contributed amounts upon the execution of the agreement and is required to pay a fixed annuity to the donor during the lifetime of the donor. Habitat has recorded the contributed assets based on fair value and the annuity obligation based on the present value of future cash flows expected to be paid. The difference between the fair value of amounts contributed and the annuity obligation is recognized as unrestricted contribution revenue. Changes in the recorded assets and annuity obligations due to changes in life expectancy, present value actuarial assumptions, or market value of assets are reflected as other revenue in the accompanying consolidated statements of activities and changes in net assets.

Upon death of the grantor and the receipt of the monies, Habitat will recognize the revenues according to the donor restrictions, if any. A discount rate of 2% was used to determine the present value of all split interest agreements at September 30, 2016 and 2015.

### Building Materials Inventory

Building materials are stated at the lower of cost (utilizing the first-in, first-out method) or market.

### Mortgages Receivable

First mortgages from the sale of houses are interest free amounts due from the home buyer. Second mortgages on houses represent the difference between the cost of the house and the assigned value of the house when the residence is transferred to the occupant. Both mortgages are interest free to the homeowner but are discounted at an appropriate rate of interest for financial statement presentation purposes.

A loan is considered impaired when it is probable, based on current information and events, the Organization will be unable to collect all principal payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal payments when due.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Mortgages Receivable (Continued)

Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by the fair value of the collateral. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

### Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions. For the years ending September 30, 2016 and 2015, the Organization's allowance for loan loss is $200,000.

The allowance consists of specific and general components. The specific components relate to loans that are impaired. For such loans that are classified as impaired, an allowance is established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers unimpaired loans and is based on historical experience adjusted for qualitative factors.

Second mortgages are held on most homes sold. The terms of the second mortgages range from 10 to 20 years, and must be satisfied if the home is sold within the term of the mortgage. The second mortgages are offset by second mortgage reserves of $2,630,973 and $2,797,648 as of September 30, 2016 and 2015, respectively, as reported on the consolidated statements of financial position, because payment on these mortgages is waived over the term of the mortgage. Second mortgages issued prior to January 2006 decrease on a pro-rata basis over the term of the mortgage. Second mortgages issued after January 2006 remain at the full balance until the end of the mortgage term.

### Foreclosed Assets

Foreclosed homes acquired through or in lieu of loan foreclosure are refurbished for future qualified residents and are initially recorded at the lower of cost or fair value. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed homes and subsequent adjustments to the value are expensed.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Land and Construction Inventory

#### Land Held for Home and Commercial Property Sites

Land purchased for homes and commercial property sites is recorded at cost unless it is determined to be impaired, in which case the impaired land is written down to fair value. Donated land is recorded at the donor's appraised amount or the property appraiser's value. All related carrying costs for these properties such as maintenance, any assessments, real estate taxes, etc. are capitalized into the cost of the properties. Habitat reviews land for impairment during each reporting period on a lot by lot basis. Generally accepted accounting principles require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

#### Construction in Progress

Costs of construction in progress consist of a budgeted amount for the land transferred from land inventory to the construction account and direct home construction costs, unless it is determined to be impaired. In which case, the impaired construction in progress is written down to fair value. Construction overhead is expensed as incurred. Homes completed pending closing are classified as construction in progress until delivered. Habitat reviews construction in progress for impairment during each reporting period on a lot by lot basis. Generally accepted accounting principles require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

Habitat estimates fair values of land and construction inventory evaluated for impairment under generally accepted accounting principles based on market conditions and assumptions made by management at the time they are evaluated, which may differ materially from actual results if market conditions or assumptions change. For example, further market deterioration or changes in assumptions may lead to Habitat incurring additional impairment charges on previously impaired land and construction inventory, as well as on land and construction inventory in progress not currently impaired but for which indicators of impairment may arise if further deterioration occurs.

### Property and Equipment

Property and equipment are recorded at cost or estimated fair market value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from three to thirty-nine years.

### Donated Property and Equipment

Donations of property and equipment (in-kind contributions) are recorded as revenue at their estimated fair value at the date of donation. Such donations are reported as unrestricted support, unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Revenue Recognition

It is Habitat's policy to sell affordable housing with interest free mortgages. In accordance with generally accepted accounting principles, the mortgages receivable have been discounted based upon the prevailing market rates at the inception of the mortgage.

### Impairment Loss

For assets to be held and used, generally accepted accounting principles require the recognition of an impairment loss whenever events or changes in circumstances have indicated that an asset may be impaired and the future cash flows from that asset are less than the asset's carrying amount. The impairment loss is measured as the difference between the asset's carrying amount and its fair value.

During the years ended September 30, 2016 and 2015, Habitat recorded impairment losses of $333,985 and $322,249, respectively, which was recognized in the consolidated statements of activities and changes in net assets. Of the total impairment losses for the years ended September 30, 2016 and 2015, $1,770 and $11,106, respectively, related to land held for home sites and $332,215 and $311,143, respectively, related to construction in progress.

### Donated Materials and Services

Donations of building materials (in-kind contributions) are recorded at their estimated fair value at the date of donation.

Donated materials and professional services in the amount of $1,353,216 and $1,384,154 were recognized as contributed material and services for the years ended September 30, 2016 and 2015, respectively.

No amounts have been reflected in the consolidated statements of activities and changes in net assets for volunteer services because the criteria for recognition of such volunteer efforts under FASB guidance have not been satisfied. Nevertheless, volunteers have donated a substantial amount of their time to the program services of the Organization.

### Program Services

Program services include construction, family services, senior housing, and providing affordable home furnishings in the retail stores. The cost of home building or rehabilitation is charged to program services as the homes are completed and sold.

### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses, and the consolidated statements of activities and changes in net assets. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

## NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Significant Accounting Policies (Continued)

### Income Taxes

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under the provisions of Internal Revenue Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in these financial statements.

Management of Habitat considers the likelihood of changes by taxing authorities in its exempt organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements.

Habitat files the Form 990 in the U.S. federal jurisdiction.

### Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that affect the reported amounts and disclosures. Actual results could differ from those estimates.

Material estimates that are particularly susceptible to significant change in the near term related to the determination of the allowance for loan losses, the valuation of land and construction in progress and the determination of accrued construction rehab costs.

## NOTE 2. ESCROW CASH

Funds received from homebuyers prior to closing are held in escrow and restricted to closing costs on home sales. Habitat also holds funds in escrow as security deposits for its rental units. These escrow funds are recorded as cash with a corresponding liability in the consolidated financial statements as escrow accounts payable.

As of September 30, 2016 and 2015, Habitat held $596,988, and $617,088, respectively, in tax and insurance escrow funds. These assets, along with the corresponding liability, are not included on the consolidated statements of financial position.

## NOTE 3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specified purpose. Temporarily restricted net assets consisted of a pledge receivable of $54,594 and $180,456 as of September 30, 2016 and 2015, respectively, and is restricted for subsequent debt payments.

During the years ended September 30, 2016 and 2015, $125,862 and $119,734, respectively, was released from temporarily restricted net assets to unrestricted net assets.

## NOTE 4. PLEDGES RECEIVABLE

At September 30, 2016 and 2015, pledges receivable consisted of the following:

| **2016:** | **Temporarily Restricted** |
|---|---|
| **Receivable in less than one year** | **$ 54,594** |
| **Receivable in one to five years** | **-** |
| **Total pledges receivable** | **$ 54,594** |

| 2015: | Temporarily Restricted |
|---|---|
| Receivable in less than one year | $ 135,000 |
| Receivable in one to five years | 58,947 |
| | 193,947 |
| Less time value discount | (13,491) |
| Total pledges receivable | $ 180,456 |

Pledge discount rate was 5% for the years ended September 30, 2016 and 2015. As of September 30, 2016 and 2015, management believes the pledge receivable balances are deemed fully collectible.

## NOTE 5. MORTGAGES RECEIVABLE

There were first mortgages receivable on 139 and 163 homes at September 30, 2016 and 2015, respectively.

The following is a summary of mortgages receivable, presented net of the imputed interest amounts:

| | **2016** | 2015 |
|---|---|---|
| Balance, beginning of year | **$ 7,406,330** | $ 6,319,097 |
| New mortgages | **5,390,935** | 4,947,710 |
| | **12,797,265** | 11,266,807 |
| Payments | **(473,373)** | (494,953) |
| Change in discount rate | **493,260** | (316,563) |
| Foreclosures and deeds in lieu | **(87,529)** | (138,132) |
| Sales of mortgages | **(7,233,542)** | (2,910,829) |
| | **$ 5,496,081** | $ 7,406,330 |

Maturities of first mortgage notes receivable are summarized as follows:

| | **2016** | 2015 |
|---|---|---|
| Gross amounts due in: | | |
| Less than one year | **$ 487,012** | $ 603,002 |
| 1 to 5 years | **1,851,073** | 2,319,473 |
| After 5 years | **4,914,909** | 6,863,708 |
| | **7,252,994** | 9,786,183 |
| Unamortized discount | **(1,556,913)** | (2,179,853) |
| Allowance for doubtful accounts | **(200,000)** | (200,000) |
| Net amounts due | **$ 5,496,081** | $ 7,406,330 |

## NOTE 5. MORTGAGES RECEIVABLE (Continued)

The following is a summary of information pertaining to impaired and non-impaired loans:

| | 2016 | 2015 |
|---|---|---|
| Gross non-impaired loans with a valuation allowance | **$ 6,309,571** | $ 9,087,923 |
| Valuation allowance for non-impaired loans | **(200,000)** | (200,000) |
| Net gross non-impaired loans | **$ 6,109,571** | 8,887,923 |
| Gross impaired loans with a valuation allowance | **$ 943,423** | $ 698,260 |
| Valuation allowance for impaired loans | **-** | - |
| Net gross impaired loans | **$ 943,423** | $ 698,260 |
| Second mortgages with a valuation allowance | **$ 2,630,973** | $ 2,797,648 |
| Valuation allowance for second mortgages | **(2,630,973)** | (2,797,648) |
| Net second mortgages | **$ -** | $ - |

During the year ended September 30, 2016, Habitat sold mortgages receivable with a book value of $7,233,542 for $6,148,511. During the year ended September 30, 2015, Habitat sold mortgages receivable with a book value of $2,910,829 for $2,473,491.

## NOTE 6. HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2016, 50 homes were transferred to homeowners and 64 were under rehabilitation or completed at year-end. During the year ended September 30, 2015, 55 homes were transferred to homeowners and 60 were under rehabilitation or completed at year-end.

## NOTE 7. PROPERTY AND EQUIPMENT

At September 30, 2016 and 2015, the carrying value of property and equipment and the related accumulated depreciation are as follows:

| | 2016 | 2015 |
|---|---|---|
| Land | **$ 1,545,663** | $ 1,603,163 |
| Buildings and building improvements | **9,399,546** | 10,040,523 |
| Office fixtures and equipment | **86,534** | 86,534 |
| Computer equipment | **121,528** | 119,762 |
| Forklifts and other equipment | **126,693** | 124,893 |
| Vehicles | **932,184** | 768,635 |
| | **12,212,148** | 12,743,510 |
| Less accumulated depreciation | **(3,226,408)** | (2,931,229) |
| | **$ 8,985,740** | $ 9,812,281 |

## NOTE 8. LEASE OBLIGATIONS

### Operating Leases

Habitat leases office equipment and retail space for two retail store locations under non-cancelable operating leases with varying terms through December 2020. Rent expense under these leases were $245,589 and $184,872 for the years ended September 30, 2016 and 2015.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2016, are:

| | |
|---|---|
| Year ending September 30, | |
| 2017 | **$ 248,025** |
| 2018 | **251,485** |
| 2019 | **239,807** |
| 2020 | **176,548** |
| 2021 | **54,469** |
| | **$ 970,334** |

## NOTE 9. LINES OF CREDIT

In October 2014, the Organization entered into an unsecured line of credit of $1,000,000 with a financial institution to maintain the day-to-day operating activity. The line of credit bears interest at 3.25%, and matures in October 2015. In October 2015, the Organization renewed the unsecured line of credit of $1,000,000 with the same financial institution to maintain the day-to-day operating activity. The line of credit bears interest at 3.25%, and matures in October 2016. There is no outstanding balance at September 30, 2016 and 2015. In October 2016, the Organization renewed the line of credit of $1,000,000 with the same financial institution. The renewed line of credit bears interest at 3.25%, and matures in October 2017.

In March 2015, the Organization entered into a secured line of credit of $1,000,000 with a financial institution to fund the single family affordable housing projects. The line of credit bears interest at 3.25%, and matures in March 2016. In March 2016, the Organization renewed the line of credit of $1,000,000 with the same financial institution. The renewed line of credit bears interest at 3.50%, and matures in March 2017. The line of credit was secured by the assignment of notes and mortgages receivable. There is no outstanding balance at September 30, 2016 and 2015.

## NOTE 10. LONG-TERM DEBT

| | **2016** | 2015 |
|---|---|---|
| Note payable secured by real estate, payable to a financial institution in monthly interest payments that bear interest at 4.25%, with the outstanding principal balance due in October 2017. | **$ 2,702,900** | $ 2,841,500 |
| Unsecured note payable to financial institution, annual payments of $135,000, principal and interest at 5%, maturing December 2016. | **54,593** | 180,456 |
| Unsecured investment bond payable to a financial institution, quarterly interest payments of 0.25%, full balance due September 2018. | **500,000** | 500,000 |

## NOTE 10. LONG-TERM DEBT (Continued)

| | **2016** | 2015 |
|---|---|---|
| Note payable secured by real estate, payable to a financial institution at 3% interest and monthly payments of $1,367 beginning August 2017 with final payment due June 2023. | **90,000** | 90,000 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 4.25% interest and monthly payments of $890 with final payment due October 2017. | **11,199** | 21,151 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 4.30% interest and monthly payments of $1,068 with final payment due November 2018. | **-** | 12,350 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 4.45% interest and monthly payments of $1,349 with final payment due November 2019. | **22,455** | 61,369 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 4.05% interest and monthly payments of $622 with final payment due December 2018. | **16,018** | 22,667 |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.90% interest and monthly payments of $774 with final payment due May 2020. | **32,825** | - |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 1.90% interest and monthly payments of $774 with final payment due May 2020. | **32,826** | - |
| Note payable secured by the vehicle, to finance a vehicle purchase, payable to a finance company at 3.75% interest and monthly payments of $950 with final payment due October 2020. | **43,038** | - |
| Note payable secured by board designated funds, to fund sub-granting under the Self-Help Ownership Program (SHOP), payable to Habitat International at 0.00% interest and monthly payments of $416 with final payment due December 2021. | **16,250** | - |
| Note payable with an available borrowing limit of up to $250,000 to fund pre-development costs for the Harlem Heights project, payable to Florida Housing Finance Corporation (FHFC) at 1.00% interest and annual payments of $16,073 with final payment due July 2019. | **48,221** | - |
| | **$ 3,570,325** | $ 3,729,493 |

## NOTE 10. LONG-TERM DEBT (Continued)

Principal maturities of long-term debt at September 30, 2016 are as follows:

| | |
|---|---|
| Year ending September 30, | |
| 2017 | $ **132,936** |
| 2018 | **3,280,206** |
| 2019 | **67,551** |
| 2020 | **43,700** |
| 2021 | **19,079** |
| Thereafter | **26,853** |
| | $ **3,570,325** |

## NOTE 11. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles (GAAP), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements).

The three levels of the fair value hierarchy under GAAP are described as follows:

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

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially all of the full term of the asset or liability.

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

The asset or liability'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 need to maximize the use of observable inputs and minimize the use of unobservable inputs.

**Assets Measured at Fair Value on a Recurring Basis**

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2016.

*Mutual funds*: Valued at the net asset value (NAV) of shares held by Habitat at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Habitat believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

## NOTE 11. FAIR VALUE MEASUREMENTS (Continued)

The following table sets forth by level, within the fair value hierarchy, Habitat's assets at fair value as of September 30, 2016:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual funds | **$ 178,503** | **$ -** | **$ -** | **$ 178,503** |
| Total assets at fair value | **$ 178,503** | **$ -** | **$ -** | **$ 178,503** |

The following table sets forth by level, within the fair value hierarchy, Habitat's assets at fair value as of September 30, 2015:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Mutual funds | $ 188,352 | $ - | $ - | $ 188,352 |
| Total assets at fair value | $ 188,352 | $ - | $ - | $ 188,352 |

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

*Impaired loans*: Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the fair value of collateral. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Organization records the loan impairment as nonrecurring level 2.

*Impaired land held for home sites*: Land held for home sites impairment are reported when the current tax appraised values are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such assets to its fair value. When the fair values of such assets are based on current tax appraised values, the Organization records the land held for homes sites as nonrecurring level 2.

## NOTE 12. MORTGAGE LOAN SERVICE AGREEMENT

Habitat services the mortgages it holds, handling the processing of mortgage payments and escrow accounts for the mortgages. In addition, Habitat also services mortgages totaling $22,750,036 as of September 30, 2016 and $21,129,336 as of September 30, 2015 that it sold to outside investors. These mortgages are not owned by Habitat and, therefore, are not reflected in the consolidated financial statements.

## NOTE 13. TITHE TO HABITAT INTERNATIONAL

Habitat annually remits a portion of its revenues to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed $179,380 and $195,864 for the years ended September 30, 2016 and 2015, respectively. This amount is included in program services expense in the consolidated statement of functional expenses.

## NOTE 14. LEE COUNTY AND CITY OF CAPE CORAL CONTRACTS

During the years ending September 30, 2016 and 2015, Habitat entered into various contracts with Lee County and the City of Cape Coral to construct or rehabilitate 13 and 28 single-family homes, respectively. These contracts were funded through the Florida State Housing Initiative Partnership Program.

## NOTE 15. CONCENTRATION OF CREDIT RISK

Habitat maintains cash balances at several financial institutions located in Southwest Florida. Accounts in each institution are insured by the Federal Deposit Insurance Corporation up to the statutory limit. At September 30, 2016 and 2015, Habitat's uninsured cash balances totaled $3,311,255 and $788,027, respectively.

## NOTE 16. MORTGAGE LOAN COMMITMENTS

When Habitat sells mortgages to third parties, it agrees with the buyer to replace any delinquent mortgage loan with a mortgage of approximately the same amount. The buyer of the loans must request that this be done. The mortgages summarized in Note 5 are subject to this replacement requirement.

## NOTE 17. RELATED PARTY TRANSACTIONS

The Organization paid $53,418 and $55,213 to a law firm that has a board member as a stockholder during the years ended September 30, 2016 and 2015, respectively.

The Organization paid $350 and $650 to an accounting firm that has a board member as a stockholder during the years ended September 30, 2016 and 2015, respectively.

The Organization paid $47,028 and $40,488 to a construction company that has a board member as senior management during the years ended September 30, 2016 and 2015, respectively.

The Organization paid $26,555 to a civil engineering firm that has a board member as senior management during the years ended September 30, 2015.

The Organization maintains its operating account and money market account in a commercial bank that a board member is area president of. The Organization also has an unsecured line of credit with the same commercial bank (see Note 9).

## NOTE 18. RETIREMENT PLAN

Habitat's employees participate in a defined contribution plan. Employees eligible to participate in the plan must be at least 21 years of age and have three months of service. The plan allows for employee contributions which Habitat may match up to a maximum of 4% of eligible compensation. The employer match expenses for the years ended September 30, 2016 and 2015 are $62,549 and $64,357, respectively.

## NOTE 19. CONTINGENCY

Habitat is involved in a number of legal actions relating to delinquent mortgages. It is the policy of Habitat to foreclose or receive the residence by way of a deed in lieu of foreclosure. Habitat does not anticipate any losses to be incurred from any of these legal actions.

## NOTE 20. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through December 2, 2016, the date on which the financial statements were available to be issued.

On October 21, 2016, the Organization amended and restated the note payable with FHFC to borrow an additional $500,000 for land acquisition costs for the Harlem Heights project. The note payable is secured by real estate, bears interest at 1.00%, and the total outstanding principal and interest balance is due at maturity in July 2019.