

**Habitat for Humanity of
Palm Beach County, Inc.**
Riviera Beach, Florida

FINANCIAL STATEMENTS

June 30, 2017



Habitat for Humanity of Palm Beach County, Inc.
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June 30, 2017

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of Palm Beach County, Inc.
Riviera Beach, Florida

We have audited the accompanying financial statements of Habitat for Humanity of Palm Beach County, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, 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.

Board of Directors
Habitat for Humanity of Palm Beach County, Inc.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Palm Beach County, Inc. as of June 30, 2017, 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.

Carly Riggs & Ingram, L.L.C.

33 S.W. Flagler Avenue
Stuart, Florida
December 19, 2017

Habitat for Humanity of Palm Beach County, Inc.
Statement of Financial Position

June 30,

2017

ASSETS

Cash	\$ 1,244,602
Restricted cash - escrow liabilities	355,348
Unconditional promises to give, net	1,732,345
Accounts receivable	89,753
Mortgage notes receivable, net	3,538,164
Inventory - Restore and Thrift	641,956
Inventory - homes under construction	645,032
Inventory - homes held for resale	197,016
Inventory - land	10,200
Restricted cash - property and equipment	25,000
Other assets	106,661
Property and equipment, net	2,012,853

Total assets	\$ 10,598,930
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LIABILITIES AND NET ASSETS

Liabilities:

Accounts payable	\$ 145,230
Accrued expenses	423,858
Escrow liabilities	355,348
Line of credit	1,313,338
Interest rate swap agreement	46,128
Debt	2,148,501

Total liabilities	4,432,403
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NET ASSETS

Unrestricted	4,071,365
Temporarily restricted	2,095,162
Total net assets	6,166,527

Total liabilities and net assets	\$ 10,598,930
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The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Palm Beach County, Inc.
Statement of Activities

<i>Year Ended June 30,</i>	<i>2017</i>
Unrestricted net assets:	
Support:	
In-kind contributions	\$ 3,411,476
Contributions and gifts	341,317
Governmental grants	592,326
Special events	333,433
Sale of donated merchandise (less value of donated inventory sold of \$2,768,409)	2,243
Total support	4,680,795
Revenue:	
Program service revenue:	
Homes sold (net of mortgage discounts of \$433,986)	378,564
Discount amortization	228,698
Other	61,396
Gain on disposition of property and equipment	3,900
Gain on sale of mortgage notes receivable	221,109
Interest income	466
Total revenue	894,133
Satisfaction of program restrictions releasing temporarily restricted net assets	1,320,733
Total support, revenue and release of temporarily restricted net assets	6,895,661
Expenses:	
Program services	3,043,924
Supporting services:	
Restore	1,809,550
Thrift store	307,506
Management and general	533,225
Fundraising and development	569,495
Total supporting services	3,219,776
Total expenses	6,263,700
Change in unrestricted net assets	631,961
Temporarily restricted net assets:	
Contributions	1,654,555
Net assets released from donor restrictions	(1,320,733)
Change in temporarily restricted net assets	333,822
Change in net assets	965,783
Net assets at beginning of year	4,290,279
Prior period adjustment	910,465
Net assets at beginning of year - as restated	5,200,744
Net assets at end of year	\$ 6,166,527

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

Habitat for Humanity of Palm Beach County, Inc.
Statement of Functional Expenses

Year Ended June 30,

2017

	Supporting Services						Total
	Program Services	Restore	Thrift Store	Management and General	Fundraising and Development	Total Supporting Services	
Personnel Costs:							
Salaries and contractors	\$ 606,155	\$ 804,963	\$ 168,585	\$ 395,339	\$ 265,493	\$ 1,634,380	\$ 2,240,535
Employee benefits and taxes	144,363	237,031	33,711	8,817	40,755	320,314	464,677
Subtotal	750,518	1,041,994	202,296	404,156	306,248	1,954,694	2,705,212
Other Expenses:							
Home construction costs	1,745,759	-	-	-	-	-	1,745,759
Rent	131,770	346,546	11,300	16,832	10,435	385,113	516,883
Insurance expense	91,803	60,392	12,589	28,034	6,751	107,766	199,569
Office expense	59,608	58,195	13,422	20,320	22,218	114,155	173,763
Promotional	1,137	48,088	5,266	605	42,665	96,624	97,761
Interest	80,543	6,544	9,679	-	-	16,223	96,766
Repair and maintenance	24,246	80,141	10,168	10,865	9,700	110,874	135,120
Professional fees	53,868	1,840	907	13,153	4,082	19,982	73,850
Fundraising expense	567	83	38	-	137,217	137,338	137,905
Utilities	11,959	57,164	10,183	2,699	1,624	71,670	83,629
Telephone	15,967	15,785	8,691	8,961	4,496	37,933	53,900
Travel	21,704	20,035	3,695	8,333	5,603	37,666	59,370
Volunteer/education expense	21,888	3,816	179	5,546	4,642	14,183	36,071
Contracted services	-	7,348	2,471	-	-	9,819	9,819
Miscellaneous	697	618	362	10,662	12,026	23,668	24,365
Taxes and licenses	4,124	3,920	1,179	199	52	5,350	9,474
Tithe and contribution	4,800	-	-	-	-	-	4,800
Subtotal	2,270,440	710,515	90,129	126,209	261,511	1,188,364	3,458,804
Total expenses before provision for depreciation	3,020,958	1,752,509	292,425	530,365	567,759	3,143,058	6,164,016
Provision for depreciation	22,966	57,041	15,081	2,860	1,736	76,718	99,684
Total expenses	\$ 3,043,924	\$ 1,809,550	\$ 307,506	\$ 533,225	\$ 569,495	\$ 3,219,776	\$ 6,263,700

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

Habitat for Humanity of Palm Beach County, Inc.
Statement of Cash Flows

Year Ended June 30,

2017

Cash flows from operating activities:	
Change in net assets	\$ 965,783
Adjustments to reconcile change in net assets to net cash used in operating activities:	
Provision for depreciation	99,684
Amortization of discount on unconditional promises to give	(4,355)
Home sales through mortgage notes receivable	(721,000)
Net increase in mortgage discounts	205,288
Value of donated inventory (Restore and Thrift) received	(2,740,075)
Value of donated inventory (Restore and Thrift) sold	2,768,409
In-kind donation of inventory - homes held for resale	(197,016)
Write down of inventory - land	42,459
Contributions restricted for long-term purposes	(47,500)
In-kind donation of property and equipment	(387,000)
Decrease in interest rate swap agreement included in interest expense	(44,316)
Gain on sale of mortgage notes receivable	(221,109)
Gain on sale of property and equipment	(3,900)
Changes in assets and liabilities:	
(Increase) decrease in:	
Unconditional promises to give	(107,483)
Accounts receivable	(15,224)
Grant receivables	28,449
Inventory - land	23,082
Inventory - homes under construction	(45,097)
Inventory - homes held for resale	7,632
Other assets	(44,975)
Increase (decrease) in:	
Accounts payable	(3,839)
Accrued expenses	31,525
Net cash used in operating activities	(410,578)
Cash flows from investing activities:	
Payments received on mortgage notes receivable	356,866
Proceeds from sale of mortgage notes receivable	397,305
Proceeds from sale of property and equipment	3,900
Purchase of property and equipment	(32,387)
Increase in cash restricted for the purchase of property and equipment	(25,000)
Net cash provided by investing activities	700,684
Cash flows from financing activities:	
Payments on line of credit	(486,792)
Advances on line of credit	855,000
Payments on debt	(108,679)
Contribution received for long-term purposes	47,500
Net cash provided by financing activities	307,029
Net increase in cash	597,135
Cash, beginning of year	647,467
Cash, end of year	\$ 1,244,602

Supplemental disclosures of cash flow information (Note 14)

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

Habitat for Humanity of Palm Beach County, Inc. Notes to Financial Statements

NOTE 1 - ORGANIZATION AND PURPOSE

Habitat for Humanity of Palm Beach County, Inc. (the "Organization") was founded in October 1986 as a nonprofit ecumenical Christian housing ministry affiliated with Habitat for Humanity International, Inc., an organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, the Organization builds simple decent houses with the help of low-income homeowner families. The Organization focuses its efforts in the areas of West Palm Beach, Lake Worth, Jupiter and western communities in the Glades area, Florida. The Organization also operates thrift store and restores. The proceeds from these stores go towards the funding of the Organization's homebuilding efforts.

The houses built by the Organization and its volunteers are sold to partner families at no profit and are financed with affordable no-interest loans. The homeowner's monthly mortgage payments go into a revolving fund that is used to build more houses. In addition to a down payment and the monthly mortgage payment, each homeowner family invests hundreds of hours of their own labor into the building of their house as well as the houses of others.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of accounting - The accompanying financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Basis of presentation - The financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) in its Accounting Standards Codification (ASC) No. 958 Not-for-Profit Entities. Under ASC No. 958, the Organization is required to report information regarding its financial position and activities according to three classes of net assets, as follows:

- Unrestricted net assets consist of net assets that are neither permanently nor temporarily restricted by donor-imposed stipulations.
- Temporarily restricted net assets represent net assets with a donor-imposed restriction that is satisfied either by the passage of time or by actions of the Organization. The Organization had temporarily restricted net assets of \$2,095,162 at June 30, 2017 (Note 9).
- Permanently restricted net assets result primarily from contributions and other inflows of resources whose use by the Organization is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of the Organization. As of June 30, 2017, the Organization had no permanently restricted net assets.

(Notes continued on next page)

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Restricted and unrestricted revenue and support - Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Donated assets are valued at the estimated fair-market value at the date of receipt. Donated services are recognized as revenue only if the service requires specific expertise and is provided by professionals. Volunteers have also donated significant amounts of time in building the houses; however, such services have not been recognized as revenue. Revenue from the sale of inventory-Thrift and Restore is recognized at the point-of-sale.

Revenues from the sale of houses are recognized upon the transfer to the homeowners and are based upon the amount the purchasers are able to pay. The revenues and related mortgages are recorded at the discounted value of payments to be received over the lives of the mortgage. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low-income housing at inception of the mortgages. Discounts are amortized and recognized as program service revenues in the statement of activities using the effective interest method over the lives of the mortgages.

Grants from governmental agencies are recognized as revenue when the grant funds have been expended in accordance with the provisions of the respective agreements.

Cash Flows - The Organization presents its cash flows using the indirect method. The Organization considers all highly liquid investments with original maturities of 90 days or less when acquired to be cash equivalents and excludes restricted cash.

Restricted cash – Restricted cash consists of amounts not available for the Organization’s operations. Restricted cash-escrow liabilities are funds received from homeowners for the payment of property taxes and insurance included in the related escrow liabilities. Escrow liabilities may also include principal and interest payments received from homeowners and owed to financial institutions on mortgage notes receivable sold. Restricted cash-property and equipment consists of contributions received for the purpose of purchasing property and equipment.

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Promises to give - Promises to give are stated at fair value, which represents the net present value of future payments. Promises to give with due dates extending beyond one year are discounted to present value using a risk-free interest rate with similar term investments with an added amount for economic uncertainty. Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management records an allowance for uncollectible promises to give based on historical experience.

Mortgage notes receivable - When the Organization sells a home, it accepts two installment notes in return. The first is an interest-free monthly installment note based upon the amount the purchaser is able to pay for a term of 25 to 30 years with principal payments due monthly. The amount recorded is at the face amount of the note, less an unamortized discount and an allowance for uncollectible accounts. Management records an allowance for uncollectible accounts on mortgage notes receivable based on a factor of approximately 1.5% to 2% of mortgages less the unamortized discount. In addition, management periodically reviews the mortgage notes receivable balances and provides an additional allowance for accounts which may be uncollectible. As of June 30, 2017, the allowance for uncollectible accounts for mortgage notes receivable was \$68,616.

The second note is a trust deed. It is interest-free and for a similar term of years as the first note. The amount is based on the difference between the appraised value of the home and the face amount of the first note. It is issued to ensure that the homeowner will not transfer, sell or assign their title of interest in the property or to cease to occupy the property within a relatively short period of time. The second note is forgiven upon repayment of the first note. The second note and its resulting contingent gain are not recorded on either the statement of financial position or the statement of activities. An estimate of the gain on the second trust deed cannot be made. It is unlikely that any gain will be realized.

Inventory – Restore and Thrift – Substantially all inventories at Restore and Thrift stores are donated. Inventory includes donated household building materials, appliances, furniture and clothing that are sold at the Habitat Restore and Thrift stores. Donated merchandise is recorded at its estimated fair market value, which is determined based on the future economic benefit.

Inventory – homes under construction – Homes under construction are carried at cost or at market value when materials are donated. The carrying amount represents the accumulated costs of houses under construction and land improvements. Construction costs consist of direct materials and labor costs incurred. Construction costs are expensed when the property is completed and sold to the homeowner. Costs accumulated in excess of the anticipated sales price are recorded in home construction costs in the statement of functional expenses. During the year ended June 30, 2017, costs incurred in excess of the actual or anticipated selling prices (net of unamortized discounts) recognized in home construction costs in the statement of functional expenses was \$1,367,195.

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Inventory – land - Land is carried at cost when purchased or fair market value when acquired by gift. Land inventory is tracked by lot numbers and reduced when parcels are sold or when construction begins and the parcels are transferred to inventory-homes under construction.

Inventory – homes held for resale – Homes held for resale are carried at cost when purchased or market value when acquired by gift. The balance is expensed in home construction costs in the statement of functional expenses when the property is sold to the homeowner. Homes held for resale are written down to the anticipated selling prices of the homes (net of unamortized discounts) when prequalified families are identified. At June 30, 2017, homes held for resale consist of three donated homes carried at fair value and have not been written down as prequalified families have not been identified.

Property and equipment - Property and equipment are carried at cost if purchased or, if donated, at fair value on the date of donation, less accumulated depreciation. The Organization capitalizes all long-lived assets with an estimated useful life of more than three years and original cost of \$800 or more. The Organization follows the policy of providing for depreciation using the straight-line method over the estimated useful life of each type of asset which is as follows:

Building and improvements	7 - 40 years
Furniture and fixtures	5 years
Vehicles	5 years
Machinery and equipment	5 years
Software	5 years
Leasehold improvements	4 - 10 years

Donations of property and equipment 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. Without donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service, reclassifying temporarily restricted net assets to unrestricted net assets at that time.

Maintenance and repairs to property and equipment are charged to expense when incurred. Additions and major renewals are capitalized. When assets are retired or otherwise disposed of, the cost or donated value and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Derivative financial instruments - The Organization makes limited use of derivative instruments for the purpose of managing interest rate risks. An interest rate swap agreement is used to partially convert the Organization's variable rate debt to a fixed rate. In accordance with FASB ASC 815, *Derivatives and Hedging*, the interest rate swap agreement is measured at fair value as an asset or liability on the statement of financial position with corresponding changes being recorded in the statement of activities. Fair value is estimated based on a current market quote for a similar instrument.

Accrued compensated absences – Paid time off is accrued based on completed years of employment. Employees are paid for accrued paid time off as of the last day of employment subject to certain limitations. At June 30, 2017, the amount of accrued paid time off was \$111,464.

Functional expenses - Program and supporting services are charged with their direct expenses. Other expenses are allocated based on management's estimate of their proportionate share of total expenses.

Income Taxes - Income taxes are not provided for in the financial statements since the Organization is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization is not classified as a private foundation.

The Organization adopted the provisions of FASB ASC 740-10, *Income Taxes*, which clarifies the accounting for uncertainty in income taxes by defining the criterion an individual tax position must meet for any part of the benefit of the tax position to be recognized in financial statements prepared in conformity with accounting principles generally accepted in the United States of America. The Organization has determined that it does not have any uncertain tax positions and thus has not recognized any liabilities, interest or penalties in these financial statements. With few exceptions, the Organization is no longer subject to examinations by taxing authorities for fiscal years ended prior to 2014.

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

Concentrations of credit risk - Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist primarily of cash maintained in financial institutions in excess of the FDIC insured limit of \$250,000. Although cash balances may exceed federally insured limits at times during the year, the Organization has not experienced and does not expect to incur any losses in such accounts. At June 30, 2017, the Organization had \$897,805 held in excess of the FDIC limits. Cash is maintained with what management believes to be high quality financial institutions, to limit its risk.

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 3 – PRIOR PERIOD ADJUSTMENT

During the year ended June 30, 2017, management determined adjustments were necessary to the beginning balance of net assets. The adjustments did not have an effect on the results of the current year's activities. The effects of the increases (decreases) to beginning net assets are as follows:

Derecognize mortgage notes receivable and related bank debt balances (net of discounts) for mortgage notes receivable sold in prior years	\$ 1,004,626
Record donated inventory - Restore and Thrift	670,290
Decrease opening balance of inventory-homes under construction for costs accumulated in excess of estimated selling prices	(764,451)
Total prior period adjustment	910,465
Net assets at beginning of year as previously reported	4,290,279
Net assets at beginning of year as restated	\$ 5,200,744

NOTE 4 - UNCONDITIONAL PROMISES TO GIVE

Unconditional promises to give are stated at fair value, which represents the net present value of future payments less an allowance for uncollectible accounts. At June 30, 2017, an allowance was not considered necessary. The outstanding balances of unconditional promises to give at June 30, 2017 consist of the following:

Unconditional promises to give	\$ 1,812,850
Less unamortized discount	(80,505)
Unconditional promises to give, net	\$ 1,732,345

Details of unconditional promises to give at June 30, 2017 are as follows:

Due within one year	\$ 671,850
Due in one to five years	1,141,000
Total unconditional promises to give	\$ 1,812,850

For the year ended June 30, 2017, unconditional promises to give were discounted using rates ranging from 0.8% to 2%. Discounts on promises to give received in prior years are recognized as increases to contribution revenue while discounts on promises to give received in the current year are recognized as decreases to contribution revenue. For the year ended June 30, 2017, the net effect recognized in the statement of activities was an increase to contribution revenue of \$4,335.

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 5 - MORTGAGE NOTES RECEIVABLE

The mortgage notes receivable are recorded at the face amount less the unamortized discounts. The discount rate for the year ended June 30, 2017 is 7.47%. The Organization has an allowance for uncollectible accounts of \$68,616 as of June 30, 2017.

The outstanding balances at June 30, 2017 are as follows:

Face amount of mortgage notes receivable	\$ 8,906,648
Unamortized discounts	(5,299,868)
Allowance for uncollectible accounts	(68,616)
<hr/>	
Total mortgage notes receivable, net	<u>\$ 3,538,164</u>

At June 30, 2017, the Organization had two mortgages in foreclosure totaling \$151,989 with an unamortized discount of \$82,663. Subsequent to year end, the properties were sold and the Organization recovered amounts owed.

At times, the Organization may sell mortgage notes receivable to financial institutions. During the year ended June 30, 2017, the Organization sold mortgage notes receivable with a net book value of \$176,196 (including \$265,254 of unamortized discounts). Subject to certain conditions, the Organization may be contingently liable to the financial institutions for non-performing mortgage notes receivable (see Note 13).

NOTE 6 - PROPERTY AND EQUIPMENT

Property and equipment used in operations consists of the following at June 30, 2017:

Building and improvements	\$ 2,323,836
Vehicles	137,472
Leasehold improvements	148,355
Land	75,000
Machinery and equipment	41,257
Furniture and fixtures	41,920
Software	5,703
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Total property and equipment at cost	2,773,543
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Less - accumulated depreciation	(760,690)
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Property and equipment - net	<u>\$ 2,012,853</u>

Depreciation expense for the year ended June 30, 2017 totaled \$99,684.

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 7 - LINE OF CREDIT

The Organization has a revolving line of credit with a bank, which permits borrowings up to \$1,535,000 subject to certain borrowing limits. The line bears interest at LIBOR plus 2.5% with a maturity date of January 2018. At June 30, 2017, the balance of the line of credit was \$1,313,338. The line is collateralized by mortgage notes receivable with a net book value of \$759,536 including unamortized discounts of \$1,211,931.

NOTE 8 - DEBT

Debt consists of the following at June 30, 2017:

Note payable to bank with interest only payments at a rate of LIBOR plus 2.5% with a floor of 3.5% and a ceiling of 5.5%, collateralized by mortgage notes receivable with a net book value of \$344,149 (including unamortized discounts of \$518,462), due February 2018.	\$ 430,398
Note payable to bank with interest only payments at Prime less .25%, collateralized by mortgage notes receivable with a net book value of \$470,726 (including unamortized discounts of \$700,407), due November 2018.	706,692
Mortgage payable to Bank, due in monthly principal payments of \$3,280 (increasing annually through maturity) plus interest of LIBOR plus 3.25% due March 2020, collateralized by certain real estate with a net book value of \$1,067,538.	800,467
Mortgage payable to Bank, interest ranging from 4.38% to 5.99%, due in monthly installments ranging from \$1,169 to \$2,825, including interest, with maturities from 2022 to 2023, collateralized by certain real estate with a net book value of \$276,253.	210,944
Total debt	\$ 2,148,501

In conjunction with the \$800,467 mortgage note payable above, the Organization entered into an interest rate swap agreement with a bank that expires in March 2020. The agreement effectively converts variable interest rate debt to fixed interest rate debt on the notional amount equal to the balance of the corresponding note payable. Under the terms of the agreement, the Organization pays 3.85% per annum and receives the LIBOR price. The fair value of the interest rate swap agreement (see Note 12) is a liability based on a quote obtained from the primary financial lender, which was quoted at \$46,128 as of June 30, 2017. For the year ended June 30, 2017, the change in fair value was a decrease to interest expense of \$44,316.

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 8 - DEBT (CONTINUED)

Annual maturities of long-term debt for the five years following June 30, 2017 are as follows:

Year ended June 30,	Amount
2018	\$ 497,732
2019	788,689
2020	758,521
2021	43,520
2022	41,281
Thereafter	18,758
Total debt	\$ 2,148,501

NOTE 9 - TEMPORARILY RESTRICTED ASSETS

At June 30, 2017, temporarily restricted net assets consisting of cash and unconditional promises to give are available for the following purposes or periods:

	Time Restriction	Home Constructio	Property and Equipment	Total
Cash	\$ -	\$ 380,347	\$ -	\$ 380,347
Restricted cash	-	-	25,000	25,000
Unconditional promise to give, net	942,745	747,070	-	1,689,815
Total temporary restricted net assets	\$ 942,745	\$ 1,127,417	\$ 25,000	\$ 2,095,162

NOTE 10 - DONATIONS OF ASSETS, MATERIALS AND SERVICES

During the year ended June 30, 2017, in-kind contributions consist of the following:

Inventory - Thrift and Restore	\$ 2,740,075
Home construction costs	87,385
Inventory - homes for resale	197,016
Property and equipment - building	387,000
Total in-kind contributions	\$ 3,411,476

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc. Notes to Financial Statements

NOTE 11 - RELATED PARTY TRANSACTIONS

Habitat Housing Solutions, Inc. (HHSI) is a private nonprofit, community-based organization whose primary purpose is to provide in the communities it serves, decent, safe and sanitary housing to low income households. HHSI qualifies as a Community Housing Development Organization (CHDO). The Board of Directors of HHSI includes the Chief Executive Officer of Habitat for Humanity of Palm Beach County, Inc. (the "Organization"). In March 2016, HHSI and the Organization entered into an agreement with Palm Beach County to receive \$940,460 in funding from its HOME Investment Partnerships Program. The Organization and HHSI will use this funding to construct five homes to sell or lease to households having certain income levels. In May 2016, the above agreement was amended to include the construction of one additional home and also increased the funding amount to \$1,033,996. HHSI will act as the administrator of this funding and the Organization will act as the construction contractor. The Organization holds title to the six properties and has leased them to HHSI to provide HHSI site control thereby enabling them to undertake the construction of the desired housing units. Site control has been provided by the Organization to HHSI by means of a separate ground lease. These ground leases provide HHSI the ability to encumber the properties with the Organization and the leases will expire upon the issuance of a certificate of occupancy. Each ground lease requires HHSI, upon expiration of the lease, to transfer full ownership of the improvements to the Organization, at no cost to, or obligation by the Organization towards HHSI. The Organization shall, upon the completion of construction and the transfer of their ownership from HHSI to the Organization, sell the dwellings to a County approved income eligible household to be occupied as a principle place of residence, and if not sold within a specified period, shall be rented to a County approved income eligible household.

In November 2016, HHSI entered into an additional, similar agreement with Palm Beach County to receive funding from its HOME Investment Partnerships Program for the construction of two additional homes. On the same date, two construction contracts were signed between HHSI as the developer and the Organization as the construction contractor. The total of the two construction contracts was \$348,200. As of June 30, 2017, no amounts are due from HHSI. For the year ended June 30, 2017, the total amount of revenue received from the HOME grants through HHSI was \$552,886 and is included in government grants on the statement of activities.

In order to facilitate the requirements under the HOME grant program, HHSI obtained lines of credit with a financial institution. The financial institution required the Organization to sign the loan agreements as co-borrower. See Note 13.

NOTE 12 - FAIR VALUE MEASUREMENTS

FASB ASC 820-10, *Fair Value Measurement*, established 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).

(Notes continued on next page)

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 12 - FAIR VALUE MEASUREMENTS (CONTINUED)

The three levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

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

- Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in 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; 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 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 unobservable inputs.

Following is a description of the valuation methodology used for the liabilities measured at fair value.

Level 2 - Fair Value Measurement

The fair value of the interest rate swap agreement is based on quoted market prices for similar instruments.

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 the Organization 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.

The following table sets forth by level, within the fair value hierarchy, the liabilities fair value as of June 30, 2017.

	Level 1	Level 2	Level 3	Total
Liabilities:				
Interest rate swap agreement	\$ -	\$ 46,128	\$ -	\$ 46,128

(Notes continued on next page)

NOTE 13 - COMMITMENTS AND CONTINGENCIES

Mortgage notes receivable:

The Organization entered into loan sale agreements with financial institutions which provided for the sale of certain mortgage notes receivable held by the Organization. Upon execution of the agreements, rights of ownership of specified mortgage notes receivable were transferred to the financial institutions in exchange for cash less a specified discount. The agreements contain provisions giving the financial institutions the unilateral right of recourse against the Organization for specific non-performing mortgages. At that time, the Organization may repurchase the non-performing mortgage at the current principal balance less the same percentage discount used when the mortgage was originally sold, or it may replace it with an unencumbered mortgage note receivable with a similar principal balance and remaining terms. At June 30, 2017, the balance of mortgage notes receivable sold to and held by financial institutions that are subject to replacement or repurchase was \$2,632,425. Management has evaluated its contingent liability related to these agreements. As of and for the year ended June 30, 2017, no contingent amounts have been recognized in the statement of financial position or statement of activities.

Loan guarantee:

The Organization entered into agreements with Habitat Housing Solutions, Inc. (HHSI), a related party, for the construction of several homes under the HOME Investment Partnerships Program provided through Palm Beach County (see Note 11). As part of the grant program requirement, HHSI must request reimbursement from Palm Beach County after paying the Organization for construction services. To fulfill the requirement, HHSI obtained lines of credit with a financial institution. The financial institution required the Organization to sign the loan agreements as co-borrower. The first line of credit was signed in May 2016 for a maximum amount of \$750,000 and matured in May 2017. The second line of credit was signed in March 2017 for a maximum amount of \$353,679 and matures in December 2018. At June 30, 2017, the balance of the line of credit owed by HHSI to the financial institution is \$46,544. Management evaluated its contingent liability related to the line of credit. As of and for the year ended June 30, 2017, no contingent amounts have been recognized in the statement of financial position or statement of activities.

Operating leases:

The Organization leases equipment and the premises it occupies at four locations for office space, retail facilities, and an education center. Certain rental agreements include various escalation clauses based on increased operating costs. In addition, one of the leases also provides for a lease incentive. Under this agreement, rent expense is recognized on a straight line basis. The difference between the base rent payments made and the amount of rent expense recognized is included in accrued expenses. At June 30, 2017, the amount of the liability included in the statement of financial position is \$180,380. The rental agreements having an original term of more than one year expire on various dates through November 2025. Rent expense totaled \$516,883 for the year ending June 30, 2017.

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Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

NOTE 13 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Future minimum base lease payments, excluding common area maintenance, in connection with the leases for the five years following June 30, 2017 are as follows:

Future minimum base lease payments	Amount
2018	\$ 389,886
2019	369,384
2020	381,859
2021	394,778
2022	346,676
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Total future minimum base lease payments	\$ 1,882,583

NOTE 14 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information for the year ended June 30, 2017:

Cash paid for interest during the year	\$ 141,082
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Increase in restricted cash - escrow related to escrow liabilities	\$ 39,304

Supplemental schedule of non-cash investing and financing transactions:

Acquisition of property and equipment through in-kind donation	\$ 387,000
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Acquisition of inventory - homes held for resale through in-kind donation	\$ 197,016

NOTE 15 - DATE OF MANAGEMENT'S REVIEW

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through December 19, 2017, the date that the financial statements were available to be issued.

