

HABITAT FOR HUMANITY
OF THE NEW RIVER VALLEY, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED
JUNE 30, 2016

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of the New River Valley, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of the New River Valley, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of the New River Valley, Inc. as of June 30, 2016, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Christiansburg, VA
October 11, 2016

HABITAT FOR HUMANITY OF THE NEW RIVER VALLEY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2016

ASSETS

Current assets:

Cash and cash equivalents	\$ 190,584
Inventory	34,939
Mortgages receivable, current portion	36,944
Utility deposits	1,549
Prepaid expenses	6,713
Total current assets	<u>270,729</u>
Mortgages receivable, long-term portion	310,616
Construction in progress	203,645
Land held for development	126,695
Property and equipment	30,290
TOTAL ASSETS	<u>\$ 941,975</u>

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 32,007
Sales tax payable	2,048
Payroll liabilities	6,399
Credit cards payable	5,855
Escrow deposits	1,630
Deferred revenue	67,594
Notes payable, current portion	3,022
Total current liabilities	<u>118,555</u>
Notes payable, long-term portion	25,623
Total liabilities	<u>144,178</u>
Net assets:	
Unrestricted net assets	797,797
Temporarily restricted net assets	-
Permanently restricted net assets	-
Total net assets	<u>797,797</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 941,975</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE NEW RIVER VALLEY, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Public support, revenues, gains, and reclassifications				
Public support:				
Contributions and grants	\$ 145,988	\$ -	\$ -	\$ 145,988
Contribution of land	92,000	-	-	92,000
Miscellaneous	21,285	-	-	21,285
Total public support	<u>259,273</u>	<u>-</u>	<u>-</u>	<u>259,273</u>
Revenue and Gain:				
Interest	2	-	-	2
ReStore sales:				
Sales	457,318	-	-	457,318
Change in donated inventory	26,000	-	-	26,000
Cost of goods sold	(26,256)	-	-	(26,256)
Gross profit from ReStore sales	<u>457,062</u>	<u>-</u>	<u>-</u>	<u>457,062</u>
Gain on sales of property	5,641	-	-	5,641
Total Revenue and Gain	<u>462,705</u>	<u>-</u>	<u>-</u>	<u>462,705</u>
Assets released from restrictions:				
Restrictions satisfied by payments	8,971	(8,971)	-	-
Total public support, revenues, gains, and reclassifications	<u>730,949</u>	<u>(8,971)</u>	<u>-</u>	<u>721,978</u>
Expenses				
Program services:				
Construction and critical repair	123,047	-	-	123,047
ReStore	314,822	-	-	314,822
Total program services	<u>437,869</u>	<u>-</u>	<u>-</u>	<u>437,869</u>
Management and general	121,586	-	-	121,586
Fundraising	6,399	-	-	6,399
Total expenses	<u>565,854</u>	<u>-</u>	<u>-</u>	<u>565,854</u>
Change in net assets	165,095	(8,971)	-	156,124
Net assets as of the beginning of the year	<u>632,702</u>	<u>8,971</u>	<u>-</u>	<u>641,673</u>
Net assets as of the end of the year	<u>\$ 797,797</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 797,797</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF THE NEW RIVER VALLEY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2016

	Program Services		Supporting Services		Total
	Construction & Critical Repair	ReStore	Management and General	Fundraising	
Advertising	\$ -	\$ -	\$ -	\$ 1,722	\$ 1,722
Automotive	620	2,734	-	-	3,354
Bank & credit card fees	-	6,062	82	-	6,144
Depreciation	-	8,050	-	-	8,050
Dues & subscriptions	600	199	8,450	-	9,249
Fundraising	-	-	-	4,677	4,677
Insurance	2,700	2,701	17,656	-	23,057
Interest expense	-	-	918	-	918
Meals & entertainment	-	70	199	-	269
Miscellaneous	2,418	581	1,654	-	4,653
Office expenses	1,678	3,009	2,718	-	7,405
Payroll & benefits	74,365	159,447	75,517	-	309,329
Professional services	3,720	2,025	6,951	-	12,696
Real estate taxes	-	-	865	-	865
Rent	-	101,087	-	-	101,087
Repairs & maintenance	607	5,092	2,740	-	8,439
Supplies & equipment	27,458	2,831	412	-	30,701
Tithe to Habitat	2,500	2,500	2,500	-	7,500
Travel & training	6,381	2,541	917	-	9,839
Utilities	-	15,893	7	-	15,900
	<u>\$ 123,047</u>	<u>\$ 314,822</u>	<u>\$ 121,586</u>	<u>\$ 6,399</u>	<u>\$ 565,854</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE NEW RIVER VALLEY, INC.
STATEMENT OF CASH FLOWS
YEAR ENDED JUNE 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 156,124
Adjustments to reconcile net assets to net cash provided by operating activities:	
Depreciation	8,050
(Increase)/decrease in operating assets:	
Inventory	(22,497)
Mortgages receivable, net	27,686
Prepaid expenses	(2,426)
Construction in progress	(174,795)
Land held for development	45,364
Increase/(decrease) in operating liabilities:	
Accounts payable	7,987
Sales tax payable	31
Payroll liabilities	(9,051)
Credit cards payable	5,651
Escrow deposits	(628)
Deferred revenue	67,594
Net cash provided by operating activities	<u>109,090</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchase of property and equipment	(7,554)
Net cash used by investing activities	<u>(7,554)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:	
Debt payments - principal	(2,933)
Net cash used by financing activities	<u>(2,933)</u>
NET INCREASE IN CASH	98,603
BEGINNING CASH	<u>91,981</u>
ENDING CASH	<u>\$ 190,584</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF THE NEW RIVER VALLEY, INC.
NOTES TO FINANCIAL STATEMENTS
YEAR ENDED JUNE 30, 2016

1. ORGANIZATION AND NATURE OF ACTIVITIES

Habitat for Humanity of the New River Valley, Inc. (The Organization), a nonprofit corporation, was chartered in the State of Virginia in 1987. Habitat for Humanity of the New River Valley, Inc., is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian nonprofit organization whose purpose is to create decent affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat for Humanity of the New River Valley, Inc. is primarily and directly responsible for its own operations.

The Organization's primary program activity is the construction, renovation, sale, and financing of houses for individuals in the New River Valley region of Virginia.

The Organization also operates a ReStore that sells affordable home building materials and furnishings. The majority of ReStore inventory is donated.

The Virginia Tech Habitat for Humanity student organization is part of Habitat for Humanity of the New River Valley, Inc. This part of the Organization provides opportunities for student volunteers to help raise funds as well as lead and participate in some of the Organization's programs. All financial activity of the student organization is included in Habitat for Humanity Inc.'s financial statements.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to the following three classes of net assets:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization, or by passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization.

B. Estimates

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

C. Cash and Cash Equivalents

For the purpose of the Statement of Cash Flows, the Organization considers all highly liquid funds with a maturity of three months or less from the date of acquisition to be cash equivalents.

D. Contributed Materials, and Services

Significant donated materials are recorded at their estimated fair values at the date of receipt, and are reflected in the financial statements as both in-kind contributions and either assets or expenses, depending on the nature of the contributions.

No amounts have been reflected in the financial statements for donated services. The Organization generally pays for services requiring specific expertise. However, many individuals volunteer their time and perform a variety of tasks that assist the Organization, but these services do not meet the criteria for recognition as contributed services.

E. Property and Equipment

The Organization capitalizes property and equipment over \$1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions 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 contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over their estimated useful lives.

F. Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted net assets depending on the existence or nature of any donor restrictions.

G. Income Tax Status

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code and classified by the Internal Revenue Service as other than a private foundation.

H. Functional Allocation of Expenses

The costs of providing the various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated to the programs and supporting services benefited.

I. Advertising Expense

All advertising costs are expensed during the period in which they are incurred.

3. INVENTORY

Purchased inventory is recorded at cost. Donated inventory is required to be recorded at fair value at the date of receipt. However, the value of such goods is generally indeterminable until it is sold. Therefore, the Organization recognizes revenues from donations of inventory when goods are sold and year-end inventory is estimated based on subsequent sales. At June 30, 2016, inventory consists of the following:

Purchased inventory	\$	8,939
Donated inventory		<u>26,000</u>
	\$	<u><u>34,939</u></u>

4. MORTGAGE NOTES RECEIVABLE

The Organization typically obtains two mortgages on the homes it sells. Both are non-interest bearing. The first mortgage is collectible over terms ranging from 15-40 years, based on the affordability to the homeowner and represents the intended sale price of the home. The second mortgage is put in place primarily to protect the initial equity in the home over and above the sales price and there are contractual provisions to forgive the second mortgage over time if certain conditions are met, subject to approval by the Board of Directors. Second mortgages are typically forgiven ratably over terms up to 10 years, and the contractual conditions for forgiveness are generally around timely payments of the first mortgage. If the Board of Directors does not approve forgiveness of any portion of the second mortgage, that portion is collected at the time that the house is sold or otherwise transacted. Due to the contingent nature of the second notes, they are not recognized in the financial statements until collection begins on such notes. Mortgage note receivable activity for the fiscal year is summarized as follows:

Balance, beginning of year	\$	425,246
Net change		<u>(27,686)</u>
Balance, end of year		397,560
Allowance for doubtful accounts		<u>(50,000)</u>
	\$	<u><u>347,560</u></u>

5. PROPERTY AND EQUIPMENT

Property and equipment consist of the following:

Construction equipment	\$	3,000
Furniture and Fixtures		8,005
Office equipment		9,911
Vehicles and trailers		<u>34,564</u>
		55,480
Accumulated depreciation		<u>(25,190)</u>
	\$	<u><u>30,290</u></u>

6. DEFERRED REVENUE AND REPAYABLE GRANT

During the fiscal year, grants were received to reimburse costs included in construction in progress. Such grants are restricted for the purpose of those projects and are repayable if such projects are not completed. They are included in deferred revenue until construction is complete, at which point the grants will no longer be repayable, all restrictions will be satisfied, and the grants will be recognized as revenues.

7. NOTES PAYABLE

Virginia Housing Development Authority issued two notes to the Organization in prior years with an annual interest rate of 3.00%. Payments are due in monthly installments of \$320. Both notes are secured by real estate.

Balance, beginning of year	\$	31,578
Principal payments		<u>(2,933)</u>
Balance, end of year	\$	<u><u>28,645</u></u>

Future scheduled maturities of long-term debt are as follows:

Years ending June 30:

2017	\$	3,022
2018		3,114
2019		3,209
2020		3,307
2021		<u>3,407</u>
	\$	<u><u>16,059</u></u>

8. RISK MANAGEMENT

The Organization maintains general commercial liability and directors' and officers' liability insurance coverage through Lockton Affinity insurance.

9. ADDITIONAL CASH FLOW INFORMATION

Cash paid for interest during the fiscal year	\$	918
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10. EVALUATION OF SUBSEQUENT EVENTS

In preparing the financial statements, the Association has evaluated events and transactions for potential recognition or disclosure through October 11, 2016, the date the financial statements were available to be issued. One event was discovered as follows:

Subsequent to year-end, one of the mortgages receivable was defaulted and the house securing the note was foreclosed on. As a result, the property was sold and the full amount receivable was paid to the Organization by the purchaser.

11. RELATED PARTY TRANSACTIONS

During the fiscal year the Organization entered into transactions totaling \$29,676 with Taylor Hollow Construction LLC, a party related to the Organization's Executive Director. Such transactions were conducted at arms-length with authorization, participation, and oversight by the Board of Directors. Other firms were also given the opportunity to bid on construction projects for which Taylor Hollow Construction LLC was hired.