

**HABITAT FOR HUMANITY - BUFFALO, INC.**

**FINANCIAL STATEMENTS**

**Years Ended June 30, 2016 and 2015**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Habitat for Humanity - Buffalo, Inc.  
Buffalo, New York

We have audited the accompanying financial statements of Habitat for Humanity - Buffalo, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 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 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 - Buffalo, Inc., as of June 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.

*Federspiel, Pfeifer & Kubicki, CPA, PC*

February 7, 2017

HABITAT FOR HUMANITY - BUFFALO, INC.  
STATEMENTS OF FINANCIAL POSITION  
June 30, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Cash and cash equivalents	\$ 473,512	\$ 789,570
Investments	222,554	2,520
Grants receivable	87,000	30,000
Mortgages receivable	7,932,239	7,374,836
Unamortized discount on mortgages receivable	(4,711,138)	(4,409,448)
Escrow deposits receivable	10,353	22,607
Other receivables	8,813	12,256
Prepaid expenses	30,009	32,357
Construction in progress	532,814	776,644
Real estate held for development	36,544	32,353
Homes available for resale	275,325	76,961
Mortgage closing costs, net	7,074	8,072
Property and equipment, net	454,392	480,400
<b>TOTAL ASSETS</b>	<b>\$ 5,359,491</b>	<b>\$ 5,229,128</b>
 <b>LIABILITIES AND NET ASSETS</b>		
<b>LIABILITIES</b>		
Accounts payable and accrued expenses	\$ 95,434	\$ 95,206
Deferred revenue	-	31,500
Long-term debt	282,098	299,593
<b>TOTAL LIABILITIES</b>	377,532	426,299
 <b>NET ASSETS</b>		
Unrestricted	4,981,959	4,802,829
<b>TOTAL LIABILITIES AND NET ASSETS</b>	<b>\$ 5,359,491</b>	<b>\$ 5,229,128</b>

See accompanying notes.

HABITAT FOR HUMANITY - BUFFALO, INC.  
STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS  
Years Ended June 30, 2016 and 2015

	2016	%	2015	%
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>				
<b>REVENUE AND SUPPORT</b>				
ReStore sales	\$ 767,948	20.30%	\$ 823,057	20.45%
Contributions:				
Cash	693,384	18.33%	787,190	19.56%
Services	51,218	1.35%	52,069	1.29%
In kind	235,742	6.23%	32,146	0.80%
Transfers to homeowners	1,195,228	31.59%	1,457,567	36.22%
Mortgage discount amortization	365,463	9.66%	214,798	5.34%
Grants	458,000	12.11%	644,300	16.01%
Other income	11,829	0.31%	11,442	0.29%
Investment income	4,696	0.12%	1,370	0.03%
	<b>3,783,508</b>	<b>100.00%</b>	<b>4,023,939</b>	<b>100.00%</b>
<b>EXPENSES</b>				
Program services	3,442,900	91.00%	3,680,442	91.46%
Administrative	143,390	3.79%	126,659	3.15%
Fundraising	18,088	0.48%	54,543	1.36%
	<b>3,604,378</b>	<b>95.27%</b>	<b>3,861,644</b>	<b>95.97%</b>
<b>INCREASE IN NET ASSETS</b>	<b>179,130</b>	<b>4.73%</b>	<b>162,295</b>	<b>4.03%</b>
<b>NET ASSETS, BEGINNING</b>	<b>4,802,829</b>		<b>4,640,534</b>	
<b>NET ASSETS, ENDING</b>	<b>\$ 4,981,959</b>		<b>\$ 4,802,829</b>	

See accompanying notes.

HABITAT FOR HUMANITY - BUFFALO, INC.  
 STATEMENTS OF FUNCTIONAL EXPENSES  
 Years Ended June 30, 2016 and 2015

	2016					2015				
	Program Services	Administrative	Fundraising	Total	%	Program Services	Administrative	Fundraising	Total	%
Cost of homes transferred	\$ 1,366,881	\$ -	\$ -	\$ 1,366,881	36.13%	\$ 1,512,445	\$ -	\$ -	\$ 1,512,445	37.59%
Discount on mortgages receivable	691,515	-	-	691,515	18.28%	856,860	-	-	856,860	21.29%
ReStore	559,733	-	-	559,733	14.79%	517,632	-	-	517,632	12.86%
Labor	327,295	70,070	4,608	401,973	10.62%	298,886	46,982	25,125	370,993	9.22%
AHC grant development fee	89,000	-	-	89,000	2.35%	90,000	-	-	90,000	2.24%
Professional fees	53,494	31,753	-	85,247	2.25%	24,936	32,610	-	57,546	1.43%
Employee benefits	74,728	1,910	126	76,764	2.03%	69,833	2,563	2,068	74,464	1.85%
Americorps/Vista labor	76,271	-	-	76,271	2.02%	60,981	-	-	60,981	1.52%
Construction support	50,944	-	-	50,944	1.35%	35,252	-	-	35,252	0.88%
Habitat International tithe	46,604	-	-	46,604	1.23%	66,210	-	-	66,210	1.65%
Depreciation/amortization	41,397	1,378	-	42,775	1.13%	43,705	1,880	-	45,585	1.13%
Amerinat service fees	26,352	-	-	26,352	0.70%	29,897	-	-	29,897	0.74%
Office expense	7,106	18,206	-	25,312	0.66%	6,828	23,775	-	30,603	0.75%
Miscellaneous	7,660	11,472	262	19,394	0.51%	7,664	5,769	2,599	16,032	0.40%
Insurance	16,169	859	-	17,028	0.45%	18,822	781	-	19,603	0.49%
Printing & postage	-	3,023	13,092	16,115	0.43%	-	2,982	24,751	27,733	0.69%
Materials	5,113	-	-	5,113	0.14%	29,247	-	-	29,247	0.73%
Telephone	-	3,688	-	3,688	0.10%	-	2,275	-	2,275	0.06%
Bad debt expense	1,781	-	-	1,781	0.05%	10,339	-	-	10,339	0.26%
Utilities	-	1,031	-	1,031	0.03%	-	602	-	602	0.01%
Interest	857	-	-	857	0.02%	905	-	-	905	0.02%
Rent	-	-	-	-	0.00%	-	6,440	-	6,440	0.16%
<b>TOTAL</b>	<b>\$ 3,442,900</b>	<b>\$ 143,390</b>	<b>\$ 18,088</b>	<b>\$ 3,604,378</b>	<b>95.27%</b>	<b>\$ 3,680,442</b>	<b>\$ 126,659</b>	<b>\$ 54,543</b>	<b>\$ 3,861,644</b>	<b>95.97%</b>

See accompanying notes.

HABITAT FOR HUMANITY - BUFFALO, INC.  
STATEMENTS OF CASH FLOWS  
Years Ended June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 179,130	\$ 162,295
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	42,775	45,585
Unrealized/realized gain on investments	(3,004)	(172)
Donation of investments	(217,030)	(1,112)
Donation of materials	(18,712)	(31,034)
Mortgage discount amortization	(315,768)	(214,797)
Discount on mortgages receivable	691,515	856,860
Issuance of mortgage loans	(1,171,172)	(1,405,092)
Mortgage payments received	495,122	405,289
Foreclosures, net of discount amortization	-	9,994
Mortgage adjustment for homes returned to Habitat	44,590	46,077
(Increase) decrease in:		
Cash restricted for escrow	-	670
Grants receivable	(57,000)	(30,000)
Escrow deposits receivable	12,254	(2,552)
Other receivables	3,443	(1,149)
Prepaid expenses	2,348	(883)
Construction in progress	262,542	517,724
Real estate held for development	(4,191)	(12,637)
Homes available for resale	(198,364)	(1,953)
Increase (decrease) in:		
Accounts payable and accrued expenses	228	10,043
Escrow deposits liability	-	(670)
Mortgage deposits receivable/liability	-	792
Deferred revenue	(31,500)	(50,000)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(282,794)	303,278
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property, equipment and intangibles	(15,769)	(49,832)
NET CASH USED BY INVESTING ACTIVITIES	(15,769)	(49,832)

See accompanying notes.



	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on long-term debt	(18,352)	(17,741)
Discount on note payable	<u>857</u>	<u>952</u>
NET CASH USED BY FINANCING ACTIVITIES	<u>(17,495)</u>	<u>(16,789)</u>
NET INCREASE (DECREASE) IN CASH	(316,058)	236,657
CASH, BEGINNING	<u>789,570</u>	<u>552,913</u>
CASH, ENDING	<u>\$ 473,512</u>	<u>\$ 789,570</u>
SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 12,157	\$ 12,793

See accompanying notes.

HABITAT FOR HUMANITY - BUFFALO, INC.  
NOTES TO FINANCIAL STATEMENTS

NOTE A—NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Habitat for Humanity - Buffalo, Inc. (the Organization) is a nonprofit corporation, organized as an affiliate of Habitat for Humanity International. They are an ecumenical Christian housing organization that works in partnership with people in need to build and renovate decent, affordable housing in Buffalo, New York and nearby Lackawanna.

The houses are sold to pre-qualified families at no profit and with no interest charged while the Organization holds the mortgages. Homeowners and volunteers build the houses under trained supervision. Homeowner families are selected based on their level of need, willingness to work, acceptance of responsibilities and ability to repay their mortgage. Families must complete 500 hours of "sweat equity," which includes attending workshops, working at the Organization's ReStore, and by educational achievement. Veteran's Build families must complete 300 hours of "sweat equity."

Habitat for Humanity - Buffalo, Inc. operates two ReStore locations where they sell new and gently used household items. Proceeds from the sale of goods go directly towards building more houses for low income families in Buffalo, New York.

The Organization is financed by private cash donations from individuals, community groups, corporations, charities, foundations, schools, and religious organizations, as well as grants from public entities. They also receive contributions of construction materials, household items, land, and volunteer labor and professional services.

Use of Estimates

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

Cash and Cash Equivalents

The Organization had concentrated its credit risk by maintaining deposits in banks located within the same geographic region. The maximum loss that would have resulted from that risk totaled \$203,556 at the end of June 2016 and \$520,305 at the end of June 2015 for the excess of the deposit liabilities reported by the bank over the amounts that would have been covered by federal insurance.

Investments

Investments are carried at fair value, based upon quoted market prices in the statement of financial position. Realized and unrealized gains and losses are reflected in the statement of activities.

Mortgages Receivable

Mortgages receivable are non-interest bearing notes which are secured by real estate and payable in monthly installments over the life of the mortgage. The Organization's management closely monitors outstanding balances and writes off any balances deemed uncollectible.

Non-interest bearing mortgages have been discounted based upon the discount rate established by Habitat for Humanity International as of June 30<sup>th</sup> of each year. The mortgage discount interest rate is determined according to an annual simple average, by taking the average rate for twelve months, published by IRS "Revenue Ruling 2002-32 section 42(b)(2)" for buildings placed in service during the period. The rates in effect were 7.48% and 7.51% for June 30, 2016

HABITAT FOR HUMANITY - BUFFALO, INC.  
NOTES TO FINANCIAL STATEMENTS

and 2015, respectively. Discounts are amortized using the straight-line method over the lives of the mortgages.

The Organization outsources the administration of a majority of their mortgages to AmeriNat.

Construction in Progress

Costs incurred in conjunction with home construction are accumulated in construction in progress on the statement of financial position until the house is transferred to a homeowner.

Real Estate Held for Development

Real estate held for development includes the costs associated with acquiring real estate for potential home sites. Once construction has begun, the recorded value of the real estate is transferred to "Construction in Progress."

Homes Available for Resale

Homes available for resale represents homes that had previously been sold to disadvantaged families who were unable to make the mortgage payments and the homes were then deeded back to the Organization. It is the Organization's intention to prepare these homes so that they will be available for resale back to qualifying families.

Mortgage Closing Costs

Mortgage closing costs are being amortized by the straight-line method over the life of the related loan.

Property, Equipment and Depreciation

Property and equipment are recorded at cost. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the respective assets.

Escrow Deposits Receivable

Habitat for Humanity - Buffalo, Inc. collects and escrows payments received from homeowners for insurance and real estate taxes, and remits these payments when they are due for the mortgage servicing retained in house.

AmeriNat handles the escrow administration for the mortgages that they service.

Escrow deposits receivable represents delinquent escrow payments owed to the Organization or to the loan servicing company from the homeowners.

Contributed Services

A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, were provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenue and expense.

Transfers to Homeowners

Transfers to homeowners are recorded at the gross mortgage amount plus down payment received.

When homes are transferred to family partners, the sales price is typically less than the cost of construction and overhead. The deficiency is met through two types of homeowner subsidies: (a) funds received from government grants that are applied towards the sales price upon

HABITAT FOR HUMANITY - BUFFALO, INC.  
NOTES TO FINANCIAL STATEMENTS

closing and, (b) private contributions and grants provided by Habitat for Humanity - Buffalo, Inc. donors and applied toward the sales price to close the gap.

Presentation of Sales Tax

The State of New York, as well as certain counties located in New York State, imposes a sales tax on specific ReStore sales that the Organization has to nonexempt customers. The Organization collects that sales tax from ReStore customers and remits the entire amount to New York State. The Organization's accounting policy is to exclude the tax collected and remitted to New York State from ReStore revenues and expenses.

Income Taxes

Habitat for Humanity - Buffalo, Inc. has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code and is classified by the Internal Revenue Service as other than a private foundation. Additionally, the Organization is exempt from registration with the New York Department of State due to its status as a religious corporation.

Advertising

The Organization expenses the cost of advertising in the year incurred. Total advertising costs were \$4,407 and \$5,821 for the years ended June 30, 2016 and 2015, respectively.

Functional Allocation of Expenses

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

Financial Statement Presentation

The Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. All of its activities and net assets are classified as unrestricted.

Date of Management's Review

Management has evaluated subsequent events as of February 7, 2017, the date the financial statements were available to be issued. There were no subsequent events noted.

NOTE B—INVESTMENTS

The following is a summary of available-for-sale securities at June 30:

	2016			2015		
	Cost	Fair Value	Unrealized Gain (Loss)	Cost	Fair Value	Unrealized Gain (Loss)
Common Stock	\$ 113,260	\$116,663	\$ 3,403	\$ 2,130	\$ 2,520	\$ 390
Mutual Funds	71,024	70,800	(224)	-	-	-
Municipal Bonds	34,877	35,091	214	-	-	-
Total	\$ 219,161	\$222,554	\$ 3,393	\$ 2,130	\$ 2,520	\$ 390

HABITAT FOR HUMANITY - BUFFALO, INC.  
NOTES TO FINANCIAL STATEMENTS

Investment income consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Interest and dividends	\$ 1,692	\$ 1,198
Unrealized gain	3,004	172
	\$ 4,696	\$ 1,370

Fair value for all investments is determined by reference to quoted prices in active markets of identical assets, which is a level 1 input per FASB ASC 820-10.

NOTE C—GRANTS RECEIVABLE

Grants receivable consisted of New York State grants awarded to the Organization to assist in subsidizing the cost of homebuilding. The New York State grant revenue is earned by the Organization upon the sale of a home and upon satisfactory interim project reports for the foundation grant. As of June 30, 2016 and 2015, there was \$87,000 and \$30,000, respectively, of grants that had not been received by the Organization as of year-end. The amounts were fully collected and therefore no allowance for doubtful accounts was deemed necessary.

NOTE D—PROPERTY AND EQUIPMENT

Property and equipment consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Building and improvements	\$ 547,908	\$ 541,755
Office equipment	22,990	13,375
Vehicles	167,477	167,477
Land	24,366	24,366
	762,741	746,973
Accumulated depreciation	(308,349)	(266,573)
	\$ 454,392	\$ 480,400

NOTE E—HOME BUILDING ACTIVITY AND REAL ESTATE HELD FOR DEVELOPMENT

The following is a summary of home building activity and real estate held for development for the year ended June 30, 2016:

	<u>Number</u>	<u>Construction in Progress</u>	<u>Real Estate Held for Development</u>
Balance at July 01, 2015	14	\$ 776,644	\$ 32,353
Additional costs incurred	14	1,110,851	16,391
Transfer of real estate		12,200	(12,200)
Homes transferred during the year	(14)	(1,366,881)	-
Balance at June 30, 2016	14	\$ 532,814	\$ 36,544

HABITAT FOR HUMANITY - BUFFALO, INC.  
NOTES TO FINANCIAL STATEMENTS

The following is a summary of home building activity and real estate held for development for the year ended June 30, 2015:

	<u>Number</u>	<u>Construction in Progress</u>	<u>Real Estate Held for Development</u>
Balance at July 01, 2014	21	\$ 1,263,334	\$ 19,716
Additional costs incurred	12	929,680	23,928
Transfer of real estate		10,786	(11,291)
Homes transferred during the year	<u>(19)</u>	<u>(1,427,156)</u>	<u>-</u>
Balance at June 30, 2015	<u>14</u>	<u>\$ 776,644</u>	<u>\$ 32,353</u>

NOTE F—MORTGAGE CLOSING COSTS

Mortgage closing costs consisted of the following at June 30:

	<u>2016</u>	<u>2015</u>
Mortgage closing costs	\$ 9,986	\$ 9,986
Accumulated amortization	<u>(2,912)</u>	<u>(1,914)</u>
	<u>\$ 7,074</u>	<u>\$ 8,072</u>

NOTE G—DEFERRED REVENUE

Deferred revenue consisted of grant funds that have been awarded, but not yet earned. Deferred revenue was comprised of the following at June 30:

	<u>2016</u>	<u>2015</u>
Green Affordable Housing Program	\$ -	\$ 31,500

NOTE H—LINE OF CREDIT

The Organization has a revolving line of credit with First Niagara Bank of \$350,000. The line carries an interest rate of prime plus .50% per annum (4.00% at June 30, 2016). The line is secured by general assets of the Organization. There was no outstanding balance on the line of credit at June 30, 2016 and 2015.

NOTE I—LONG-TERM DEBT

As of June 30, 2016 and 2015, long-term debt consisted of the following:

	<u>2016</u>	<u>2015</u>
First Niagara Bank – a \$300,000 mortgage note due in monthly installments of \$2,257, including interest at 4.25%. The note matures July 2023 and is secured by the real property at 1675 South Park Avenue, Buffalo, New York.	\$ 255,582	\$ 271,433

HABITAT FOR HUMANITY - BUFFALO, INC.  
NOTES TO FINANCIAL STATEMENTS

West Side Neighborhood Housing Services Inc. – a \$50,000 noninterest-bearing note discounted at the imputed interest rate of 3.0% and due in annual installments of \$2,500. The note matures November 2029.

	26,516	28,160
	\$ 282,098	\$ 299,593

The carrying value of the noninterest-bearing obligation is shown net of total unamortized discount of \$5,983 and \$6,840 at June 30, 2016 and 2015, respectively.

Annual maturities of long-term debt subsequent to June 30, 2016 are as follows:

June 30, 2017	\$ 19,001
2018	19,802
2019	20,638
2020	21,508
2021	22,357
Thereafter	178,792
	\$ 282,098

NOTE J–TITHE TO HABITAT INTERNATIONAL

The Organization tithes a portion of the non-designated contributions and non-operating income it receives to Habitat International. These funds are used to construct houses in economically depressed areas around the world. The Organization contributed \$46,604 and \$66,210 for the years ended June 30, 2016 and 2015, respectively. These amounts are included in program services expense in the statements of activities and changes in net assets.

NOTE K–LEASES

Operating Leases

The Organization leases property located in Buffalo, New York, for one of their ReStore locations. The three year lease expires October 2016 and calls for monthly payments of \$2,279 until September 1, 2015 and \$2,394 for the remaining lease term. Rent expense of \$30,772 and \$27,348 is reflected in the statements of activities and changes in net assets as part of ReStore expenses for the years ended June 30, 2016 and 2015.

The future lease payments under this operating lease are as follows:

June 30, 2017	\$ 9,572
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The Organization had another lease for office space in Buffalo, New York, that was on a month-to-month basis. The lease called for monthly rent payments of \$920. For the years ended June 30, 2016 and 2015, rent expense totaled \$0 and \$6,440.

The Organization is also leasing warehouse space in Buffalo, New York for additional storage space. The lease began June 1, 2015 and is on a month-to-month basis. The lease calls for monthly payments of \$1,500. Rent expense totaled \$19,500 and \$1,500 for the years ended June 30, 2016 and 2015, respectively.

HABITAT FOR HUMANITY - BUFFALO, INC.  
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The Organization is leasing solar panels to help lower energy costs at one of their ReStore locations. The 15 year lease expires April 2028 and calls for monthly payments of \$100. The \$1,200 lease expense for June 30, 2016 and 2015, was included with ReStore expenses.

The future lease payments under this operating lease are as follows:

June 30, 2017	\$	1,200
2018		1,200
2019		1,200
2020		1,200
2021		1,200
Thereafter		8,200