

Rochester Area Habitat for Humanity
Rochester, Minnesota

Financial Statements
June 30, 2016 and 2015

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Independent Auditor's Report

To the Board of Directors

Rochester Area Habitat for Humanity

We have audited the accompanying financial statements of **Rochester Area Habitat for Humanity** (a nonprofit organization), which comprise the statements of financial position as of June 30, 2016 and 2015 and the related statements of activities, 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 audits 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 opinions.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Rochester Area Habitat for Humanity as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Hawkins Ash CPAs, LLP

Hawkins Ash CPAs, LLP

Rochester, MN

October 4, 2016

Rochester Area Habitat for Humanity

Rochester, Minnesota

STATEMENTS OF FINANCIAL POSITION

As of June 30, 2016 and 2015

<u>ASSETS</u>	<u>2016</u>	<u>2015</u>
Cash and cash equivalents	\$ 21,378	\$ 6,047
Construction in process	343,201	234,889
Promises to give	7,626	8,033
Prepaid expenses	5,921	8,724
Mortgages receivable, net	1,694,859	1,717,469
Deposits	2,533	2,533
Interest in gift annuity	33,648	36,275
Fixed assets, net of accumulated depreciation	1,086,586	1,121,256
Total Assets	\$ 3,195,752	\$ 3,135,226
 <u>LIABILITIES AND NET ASSETS</u>		
Liabilities:		
Accounts payable	\$ 77,240	\$ 71,741
Line of credit	80,000	45,000
Accrued taxes payable	3,037	3,140
Long-term debt, net	1,490,714	1,506,261
Total Liabilities	1,650,991	1,626,142
 Net Assets:		
Unrestricted	1,511,113	1,472,809
Temporarily restricted	33,648	36,275
Total Net Assets	1,544,761	1,509,084
Total Liabilities and Net Assets	\$ 3,195,752	\$ 3,135,226

Rochester Area Habitat for Humanity

Rochester, Minnesota

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Totals
Support and Revenues			
Support:			
Contributions and Grants:			
Cash	\$ 228,158	\$ -	\$ 228,158
In-Kind	40,123	-	40,123
Fund raising events and merchandise sales	32,565	-	32,565
Revenues:			
ReStore income	338,288	-	338,288
Transfers to homeowners	163,154	-	163,154
Mortgage discount amortization	125,869	-	125,869
Interest income	84	-	84
Gain (loss) in value of gift annuity	-	(2,627)	(2,627)
Other income	46,642	-	46,642
Total Support and Revenues	974,883	(2,627)	972,256
Net Assets Released from Restriction	-	-	-
Total Support and Revenues	974,883	(2,627)	972,256
Expenses			
Program Services:			
Construction	428,811	-	428,811
ReStore	237,536	-	237,536
Home finance	163,097	-	163,097
Supporting Services:			
Management and general	67,232	-	67,232
Fundraising	39,903	-	39,903
Total Expenses	936,579	-	936,579
Change in Net Assets	38,304	(2,627)	35,677
Net Assets, beginning of the year	1,472,809	36,275	1,509,084
Net Assets, end of the year	\$ 1,511,113	\$ 33,648	\$ 1,544,761

Rochester Area Habitat for Humanity

Rochester, Minnesota

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

For the Year Ended June 30, 2015

	Unrestricted	Temporarily Restricted	Totals
Support and Revenues			
Support:			
Contributions and Grants:			
Cash	\$ 271,453	\$ -	\$ 271,453
In-Kind	62,892	-	62,892
Fund raising events and merchandise sales	271,121	-	271,121
Revenues:			
Transfers to homeowners	130,000	-	130,000
Mortgage discount amortization	130,620	-	130,620
Interest income	54	-	54
Gain (loss) in value of gift annuity	-	(3,009)	(3,009)
Other income	8,890	-	8,890
Total Support and Revenues	875,030	(3,009)	872,021
Net Assets Released from Restriction	-	-	-
Total Support and Revenues	875,030	(3,009)	872,021
Expenses			
Program Services:			
Construction	392,767	-	392,767
ReStore	238,961	-	238,961
Home finance	129,574	-	129,574
Supporting Services:			
Management and general	48,214	-	48,214
Fundraising	33,878	-	33,878
Total Expenses	843,394	-	843,394
Change in Net Assets	31,636	(3,009)	28,627
Net Assets, beginning of the year	1,441,173	39,284	1,480,457
Net Assets, end of the year	\$ 1,472,809	\$ 36,275	\$ 1,509,084

Rochester Area Habitat for Humanity

Rochester, Minnesota

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Cash Flows From Operating Activities:		
Cash received from contributions	\$ 268,688	\$ 334,870
Cash received from fundraising events and merchandise sales	370,853	271,121
Cash payments received on mortgages receivable & homeowners payments	217,505	279,775
Interest received	84	54
Other income	46,642	8,890
Cash paid to employees	(294,868)	(284,051)
Cash paid to suppliers	(553,796)	193,195
Interest paid	(88,397)	(44,026)
Net Cash Provided (Used) by Operating Activities	<u>(33,289)</u>	<u>759,828</u>
Cash Flows From Investing Activities:		
Purchase of equipment and building	(2,059)	(1,099,728)
Net Cash Used By Financing Activities	<u>(2,059)</u>	<u>(1,099,728)</u>
Cash Flows From Financing Activities:		
Payments on line of credit	(135,000)	(76,000)
Proceeds from line of credit	170,000	86,000
Payments on long-term debt	(134,321)	(127,882)
Proceeds from long-term debt	150,000	312,364
Net Cash Provided By Financing Activities	<u>50,679</u>	<u>194,482</u>
Net Increase (Decrease) In Cash	15,331	(145,418)
Cash and Cash Equivalents, beginning of the year	6,047	151,465
Cash and Cash Equivalents, end of the year	<u><u>\$ 21,378</u></u>	<u><u>\$ 6,047</u></u>

Rochester Area Habitat for Humanity

Rochester, Minnesota

STATEMENTS OF CASH FLOWS

For the Years Ended June 30, 2016 and 2015

Reconciliation of Increase in Net Assets To Cash Operating Activities

Cash Flows From Operating Activities:	2016	2015
Change in Net Assets	\$ 35,677	\$ 28,627
Adjustments required to reconcile change in net assets		
To net cash provided by operating activities:		
Depreciation	36,730	34,907
Gift annuity	2,627	3,009
Imputed interest on long-term debt	(31,227)	11,253
Transfers to homeowners	(163,154)	(130,000)
Collections of mortgages receivable	217,505	279,775
Amortization of imputed interest on mortgages receivable	(125,869)	(130,620)
Imputed discounts on mortgages receivable	94,128	62,240
(Increase) Decrease In:		
Promises to give	407	525
Construction in process - Homes	(108,312)	(148,368)
Construction in process - ReStore	-	737,120
Prepaid expenses	2,803	3,365
Increase (Decrease) In:		
Accounts payable	5,499	11,353
Payroll taxes withheld and accrued	(103)	(3,358)
Net Cash Provided By (Used In) Operating Activities	\$ <u>(33,289)</u>	\$ <u>759,828</u>

Rochester Area Habitat for Humanity
Rochester, Minnesota

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2016

	Program Services			
	Construction	Home Finance	ReStore	Total
Construction materials and supplies	\$ 205,510	\$ -	\$ -	\$ 205,510
Discounts on mortgages receivable	-	94,128	-	94,128
Interest	-	57,170	-	57,170
Salaries and wages	157,315	-	102,917	260,232
Payroll taxes	17,465	-	-	17,465
Employee benefits	15,066	-	8,139	23,205
Rent	16,236	-	689	16,925
Printing	-	-	-	-
Postage	-	-	1,819	1,819
Direct costs of special events	-	-	-	-
Supplies	-	-	18,587	18,587
Telephone	2,100	-	-	2,100
Bank and loan processing fees	-	6,299	5,180	11,479
Insurance	5,825	-	7,073	12,898
Accounting and auditing fees	-	-	-	-
Advertising	1,849	-	4,363	6,212
Legal fees	-	5,000	-	5,000
Travel and reimbursements	2,221	-	5,222	7,443
Dues	-	-	-	-
Training	-	-	571	571
Volunteers	4,205	-	-	4,205
Tithe	-	500	-	500
Utilities	-	-	35,110	35,110
Repairs and maintenance	-	-	12,379	12,379
Miscellaneous	-	-	-	-
Total expenses before depreciation	427,792	163,097	202,049	792,938
Depreciation	1,019	-	35,487	36,506
Total Expenses	\$ 428,811	\$ 163,097	\$ 237,536	\$ 829,444

Support Services			
Management and General	Fundraising	Total	Totals
\$ -	\$ -	\$ -	\$ 205,510
-	-	-	94,128
-	-	-	57,170
11,511	23,022	34,533	294,765
1,278	2,556	3,834	21,299
1,102	2,205	3,307	26,512
1,188	2,376	3,564	20,489
6,055	-	6,055	6,055
-	4,438	4,438	6,257
-	4,254	4,254	4,254
3,519	-	3,519	22,106
450	450	900	3,000
23,309	-	23,309	34,788
61	182	243	13,141
6,725	-	6,725	6,725
135	271	406	6,618
-	-	-	5,000
2,741	-	2,741	10,184
1,018	-	1,018	1,018
7,495	-	7,495	8,066
-	-	-	4,205
-	-	-	500
-	-	-	35,110
-	-	-	12,379
570	-	570	570
67,157	39,754	106,911	899,849
75	149	224	36,730
\$ 67,232	\$ 39,903	\$ 107,135	\$ 936,579

Rochester Area Habitat for Humanity

Rochester, Minnesota

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2015

	Program Services			
	Construction	Home Finance	ReStore	Total
Construction materials and supplies	\$ 178,338	\$ -	\$ -	\$ 178,338
Discounts on mortgages receivable	-	62,240	-	62,240
Interest	-	55,279	-	55,279
Salaries and wages	150,218	-	97,500	247,718
Payroll taxes	17,188	-	-	17,188
Employee benefits	9,801	-	5,380	15,181
Rent	16,236	-	31,246	47,482
Real estate taxes	-	-	1,881	1,881
Printing	-	-	-	-
Postage	-	-	2,040	2,040
Direct costs of special events	-	-	-	-
Supplies	-	-	15,911	15,911
Telephone	1,983	-	-	1,983
Bank and loan processing fees	-	7,943	4,036	11,979
Insurance	8,134	-	10,558	18,692
Accounting and auditing fees	-	-	-	-
Advertising	1,300	-	5,551	6,851
Legal fees	-	612	-	612
Travel and reimbursements	5,243	-	4,227	9,470
Dues	-	-	-	-
Training	-	-	1,419	1,419
Volunteers	3,135	-	-	3,135
Tithe	-	3,500	-	3,500
Utilities	-	-	23,487	23,487
Repairs and maintenance	-	-	2,270	2,270
Miscellaneous	-	-	-	-
Total expenses before depreciation	391,576	129,574	205,506	726,656
Depreciation	1,191	-	33,455	34,646
Total Expenses	\$ 392,767	\$ 129,574	238,961	\$ 761,302

Support Services			
Management and General	Fundraising	Total	Totals
\$ -	\$ -	\$ -	\$ 178,338
-	-	-	62,240
-	-	-	55,279
10,992	21,983	32,975	280,693
1,258	2,515	3,773	20,961
717	1,435	2,152	17,333
1,188	2,376	3,564	51,046
-	-	-	1,881
4,328	-	4,328	4,328
-	2,161	2,161	4,201
-	2,365	2,365	2,365
5,288	-	5,288	21,199
425	425	850	2,833
8,989	-	8,989	20,968
85	254	339	19,031
6,334	-	6,334	6,334
95	190	285	7,136
-	-	-	612
2,624	-	2,624	12,094
1,059	-	1,059	1,059
4,535	-	4,535	5,954
-	-	-	3,135
-	-	-	3,500
-	-	-	23,487
-	-	-	2,270
210	-	210	210
48,127	33,704	81,831	808,487
87	174	261	34,907
\$ 48,214	\$ 33,878	\$ 82,092	\$ 843,394

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Rochester Area Habitat for Humanity ("Organization") seeks to eliminate poverty housing from the region through the construction and rehabilitation of simple, decent, and affordable homes, built in partnership with working families. Our goal is to eliminate cycles of generational poverty by providing responsible, cost-effective homeownership opportunities, along with comprehensive homeownership education programs. We are a volunteer-driven organization, supported by a small, dedicated staff and are supported by donations. In addition, we also operate a "ReStore", a retail operation, where donated home furnishings, building material, appliances and other items are sold to the community at a greatly reduced price. The sole purpose of the ReStore is to generate funds to assist in the Organization's main purpose of building homes.

The Organization is an IRS nonprofit corporation, organized under the laws of the state of Minnesota, that is supported by individuals, businesses, places of worship, and other local community and civic organizations. It is an affiliate in good standing of Habitat for Humanity International, and participates in the global housing ministry of Habitat for Humanity through tithing a portion of its local revenue in support of international home construction.

Net Assets

Net assets, support and revenue, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization are classified and reported as follows:

Unrestricted net assets are those funds presently available for use by or on behalf of the Organization including amounts available for general and administrative expenses. These unrestricted net assets also include board designated funds.

Temporarily restricted net assets are contributions that have donor-imposed stipulations that can be fulfilled by certain actions of the Organization. These are primarily contributions that are restricted for the acquisition of property and equipment and residential support. When the donor restriction is accomplished, these temporarily restricted assets are reclassified to unrestricted and reported on the statement of activities as assets released from restrictions. If the restriction is met in the period the related revenue is recognized, the amounts are reported within the unrestricted activity.

Permanently restricted net assets are contributions that have donor imposed restrictions whereby the amount of the gift is to be held in perpetuity. These are referred to as endowment funds. Income derived from such funds is to be used for operating expenses of the Organization. The Organization does not currently have any permanently restricted funds.

Inventory

Revenue from the ReStore is recognized at the time the goods are sold; therefore, no value for the inventory of the ReStore is included in these financial statements.

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. CONT.

Revenue Recognition

Revenue is recognized when earned and contributions are recognized when received. Contributions which will be received over a period exceeding one year are recorded at fair value, i.e., present value of estimated future cash flows.

The Organization reports contributions and contribution type grants as unrestricted unless explicit restrictions are received from the donor.

Donated materials are reported at the fair market value on the date of the gift. The Organization receives a significant amount of volunteer time in the fulfillment of its program activities and supporting activities. Contributions of time that do not require a specialized skill are not included in these financial statements. The Organization does not recognize these contributed services as revenues unless the services (a) create or enhance existing nonfinancial assets or (2) require specialized skills and are provided by individuals possessing those skills. No amounts have been reflected in the statements for donated services.

Transfers to Homeowners

Transfers to homeowners represent the revenues realized from the sale of the constructed homes, and are recorded at the gross mortgage amount, when the title passes to eligible purchasers. Non-interest bearing mortgages issued during the fiscal year have been fully discounted based upon prevailing market rates for low income housing at the inception of the mortgage. This amount is noted as "Discounts on Mortgages Receivable" on the Organization's Statement of Functional Expenses. The discounts on the mortgages are recognized as interest income over the term of the mortgage.

As the cumulative discounts on all homes previously constructed by the Organization gradually reduce as mortgage payments are made, this amount is recognized as "Mortgage Discount Amortization" revenue on the Organization's Statement of Activities and Changes in Net Assets, utilizing the effective interest method.

Property and Equipment

Property and equipment are recorded at cost or at estimated fair market value at the date of donation, less accumulated depreciation. Donations of equipment are reported as unrestricted revenue unless the donor has restricted the use of the donated equipment. The Organization generally capitalizes all expenditures for equipment in excess of \$500. Depreciation is provided using the straight-line method over estimated lives ranging from five to thirty-nine years.

Gift Annuity

The Organization has been named as the beneficiary of an annuity agreement entered into between an individual and Habitat for Humanity International. The Organization records its interest in this annuity agreement at the current market value of the related assets less the estimated liability for the actuarially determined present value of payments to be made to the designated beneficiaries. The value of the gift annuity is considered temporarily restricted since the amount is not available until the termination of the annuity agreement.

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. CONT.

Cash and Cash Equivalents

For financial statement purposes, the Organization considers all highly liquid investments with maturity of three months or less when purchased to be cash equivalents.

Mortgage Receivable

Mortgage receivable consists of non-interest bearing mortgages that are secured by real estate located in Southeastern Minnesota and payable in monthly installments over the life of the loan. Mortgages are carried at their current present value.

Mortgages Receivable Delinquency Policy

Mortgages of up to 90 days past due receive numerous written and verbal correspondence from the Organization. At 90 days, if no workout or payment plan has been established and agreed upon with the homeowner, the mortgagor will be declared to be in default, which initiates the foreclosure process in accordance with Minnesota state law. The Organization will make every effort to bring the mortgagor back on track with payment schedules. Foreclosure is the least desirable outcome and will only be used when all negotiation and attempts of settlement have occurred and failed.

Tax Status

The Organization is exempt from federal and state income taxes as a public charity under Section 501 (c)(3) of the Internal Revenue Code; therefore, no provision for income taxes has been made in these financial statements. There is no material unrelated business income for the year ended June 30, 2016. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

The Organization files federal exempt income tax returns (Form 990). Management is not aware of any uncertain tax positions and the open years are 2013, 2014, 2015 and 2016.

Use of Estimates in the Preparation of Financial Statements

The preparation of financial statements in accordance with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of 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.

Functional Expenses

The cost of providing the Organization's various program and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated between the program and supporting services benefited by the expenditure. Directly identifiable expenses are charged to programs and supporting services.

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. CONT.

Fair Value of Financial Instruments

The Organization's financial instruments, none of which are held for trading purposes, include cash and cash equivalents and mortgages receivable. For cash and cash equivalents the carrying amount approximates fair value because of the short maturities of those instruments. For mortgages receivable the carrying amount approximates fair value because they have already been discounted using an imputed interest rate set at the date of the mortgage origination. The rates used for computing imputed interest do not vary significantly from market rates.

Accounts Receivable

Accounts receivable are stated at the amount management expects to collect from balances outstanding at year-end. The Organization does not estimate a reserve for bad debts, as write-off have been historically small and the amounts involved are believed to be not material. The Organization does not currently have a policy to place receivables in nonaccrual status. Accounts in excess of 30 days are not considered past due. The Organization has no nonmortgage loans held for sale, interest-only strips, loans or other receivables, or retained interest in securitizations.

Accumulated Unpaid Vacation and Sick Time

Vacation and paid sick leave are recognized as an expense when paid and not accrued as earned. The unrecorded liability, if any, is not considered material in relation to the financial statements of the Organization.

Concentration of Credit Risk

The Organization places its cash and temporary cash investments with quality financial institutions insured up to \$250,000 for 2016 and 2015 by the Federal Deposit Insurance Corporation (FDIC). The Organization has not exceeded those limits and has not experienced any losses in such accounts.

NOTE 2. PROMISES TO GIVE

As of June 30, 2016 and 2015 promises to give represents amounts due from United Way of Olmsted County, IBM Employees Charitable Contribution Campaign, Wells Fargo Community Support, and the ReStore Capital Campaign. These promises to give have not been discounted and are expected to be received in less than one year. The Organization does not estimate a reserve for uncollectible promises to give, as write-offs have historically been small and the amounts involved are believed not to be material.

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 3. MORTGAGES RECEIVABLE AND CONCENTRATIONS OF CREDIT RISK

The Organization constructs and sells homes to individuals under non-interest bearing mortgages. The individual are required to make mortgage payments for periods ranging from 20 to 25 years. All of the mortgages receivable are secured by the homes sold. All of the Organization's mortgages are used to finance the purchase of homes in Rochester and the surrounding area. The ability of the borrowers to repay the mortgages is partially dependent upon the economic strength of the area.

For financial reporting purposes, these mortgages used imputed interest rates ranging from 5.25% to 8.06%. This rate is provided by Habitat for Humanity International and is based upon an average of the monthly IRS Low Income Housing Credit Annual Discount Rates. Interest is recognized for financial reporting as the mortgages mature.

Generally, the homes have a fair market value at the date of sale that exceeds the contract sales price making them a secured creditor, thus, management feels no provision for loan losses is required. In consideration for receiving a bargain purchase price and receiving a non-interest bearing mortgage, the purchasers are restricted in their ability to mortgage or sell the home. The Organization generally has the option to repurchase the home or receive a portion of the realized gain from the sale of the home during a portion of the mortgage period.

The following schedule summarizes the payment status of the mortgage loan balances as of June 30:

	2016		2015	
	NUMBER	COST	NUMBER	COST
Current	52	\$ 2,997,586	50	\$ 3,051,187
30 days past due	2	708	4	1,458
31 - 60 days past due	-	-	-	-
61 or more days past due	-	-	-	-
Discount representing imputed interest	-	(1,303,435)	-	(1,335,176)
Mortgages receivable, net	54	\$ 1,694,859	54	\$ 1,717,469

NOTE 4. PROPERTY AND EQUIPMENT

The composition of property, equipment, and accumulated depreciation as of June 30, 2016 and 2015 is as follows:

	2016	2015
Equipment and software	\$ 33,381	\$ 31,569
Vehicles	60,216	60,216
Building	907,818	907,818
Land	187,355	187,355
Total Before Depreciation	1,188,770	1,186,958
Accumulated depreciation	(102,184)	(65,702)
Total Property and Equipment	\$ 1,086,586	\$ 1,121,256

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. LINE OF CREDIT, NOTES PAYABLE, LONG-TERM DEBT AND PLEDGED ASSETS

The Organization had the following Line of Credit:

	2016	2015
\$200,000 Revolving Line of Credit due on April 25, 2017. Bank advances on the credit line are payable on demand and have an interest rate of 4.50%, which has a floor of 1.00% over prime.	\$ 80,000	\$ 45,000
Total Line of Credit Balance	\$ 80,000	\$ 45,000

The Organization borrows funds from a local bank. The interest rate is variable with the initial rate at 7.5%. The rate was adjusted to 3.0% on March 1, 2012. The note matures March 15, 2017. The initial principle amount of the loan was \$250,000 and the organization has borrowed \$176,321 under this loan agreement, and has a current balance of \$21,092. The loan is secured by mortgages receivable with outstanding balances of \$179,561.

The Organization has borrowed funds from Habitat For Humanity of Minnesota for the funding of home construction. The loan is secured by mortgages receivable with outstanding balances of \$626,636.

The Organization has borrowed funds from a local bank for the funding the building the Habitat ReStore. The loan is secured by the Habitat Store building and mortgages receivable with outstanding balances of \$266,834.

Several of the borrowings from Habitat For Humanity of Minnesota were made under non-interest bearing promissory notes. These non-interest bearing notes have been discounted using an imputed rate of 3%.

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. CONT.

Long-term debt as of June 30, 2016 and 2015 is as follows:

	2016	2015
3% promissory note payable in monthly installments of \$250, including principle and interest, due June, 2018	\$ 5,816	\$ 8,596
3% promissory note payable in monthly installments of \$240, including principle and interest, due June, 2019	6,258	8,907
3% promissory note payable in monthly installments of \$604, including principle and interest, due June, 2020	25,740	32,115
Variable interest rate note payable to bank, (currently 3.0%) due in monthly installments of \$2,983, including principle and interest, due March 15, 2017	21,092	49,063
Non-interest bearing promissory note, due December 2017	7,461	7,461
Non-interest bearing promissory note, due December 2017	7,163	7,163
Non-interest bearing promissory note, due March 2020	16,218	16,218
Non-interest bearing promissory note, due in varying monthly installments	478,529	379,118
Non-interest bearing promissory note, due in varying monthly installments	77,982	80,785
3.99% promissory note payable in monthly installments of \$5,814.05, including principle and interest, due August, 2024	894,650	927,591
3.99% promissory note payable in monthly installments of \$814, including principle and interest, due April, 2020	34,679	42,893
Total Long Term Debt Before Discounts	1,575,588	1,559,910
Discount recognized on non-interest bearing promissory notes	(84,875)	(53,649)
Long Term Debt After Discount	\$ 1,490,713	\$ 1,506,261

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 5. CONT.

Maturities of long-term debt are as follows:

<u>Year Ending June 30</u>		
2017	\$	130,384
2018		126,106
2019		124,752
2020		100,204
2021		80,100
Thereafter		1,014,042
Total	\$	<u>1,575,588</u>

NOTE 6. SECOND MORTGAGES

In order to retain the value of the cumulative community investment of volunteer labor and resources into constructed homes, the Organization may execute nonrecourse, nonperforming second mortgages for homes sold. The principal amount of these mortgages is the difference between the bargain sale price of the home to the homeowner and the true market value of the home, as determined by a qualified appraisal at the time of sale. The second mortgage has the effect of making the “gift” of equity, made possible by community volunteer service, over time instead of immediately upon the original sale to homeowner.

The principal balance of second mortgages remains constant for the first seven years of its existence, then begins to self-forgive in equal monthly installments starting in year 8. If the homeowner is determined to be in default of their first mortgage, or notifies Organization of their intent to sell their home, payment on the balance of the second mortgage becomes due. Therefore, the amount is not recorded in the financial statements. At June 30, 2016 and 2015, the second mortgages held by the Organization was \$235,700 and \$205,700, respectively.

NOTE 7. RESTRICTED NET ASSETS AND NET ASSETS RELEASED FROM RESTRICTION

During the years ended June 30, 2016 and 2015, the Organization received grants which required that the grant proceeds be used for the construction of specific homes.

Temporarily restricted net assets are available for the following purpose:

	<u>2016</u>	<u>2015</u>
Gift annuity	\$ <u>33,648</u>	\$ <u>36,275</u>

The Organization recognized an other-than-temporary gain or (loss) on its gift annuity. The amounts for 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Loss on Gift annuity	\$ <u>(2,627)</u>	\$ <u>(3,009)</u>

Rochester Area Habitat for Humanity
NOTES TO THE FINANCIAL STATEMENTS

NOTE 8. DONATED SERVICES, MATERIALS AND EQUIPMENT

During the years ended June 30, 2016 and 2015 the Organization received donated services, materials and equipment valued at \$40,123 and \$62,892, respectively. These amounts are included in the financial statements as follows:

	2016	2015
Statement of Activity		
Construction		
Construction materials and supplies	\$ 40,123	\$ 44,142
ReStore		
Construction materials and supplies	-	18,750
Totals	\$ 40,123	\$ 62,892

NOTE 9. OPERATING LEASE

The Organization leases its current office space under a lease that commenced January 1, 2008 and expired February 28, 2015. It was then renewed through February 28, 2017. The base rental cost is \$1,650 per month. Rent expense for the years ended June 30, 2016 and 2015 was \$19,800 each year. Minimum annual payments under this lease agreement for the years ended June 30 is as follows:

Year Ending	Amount
2017	\$ 13,200

NOTE 10. RETIREMENT PLAN

During the year ended June 30, 2016, the Organization established a retirement plan. In accordance with the terms of their retirement plan, the Organization will match eligible employee's salary reduction contributions up to a limit of 3% of the employees' compensation. Contributions made by the Organization for the year ended June 30, 2016 totaled \$6,006.

NOTE 11. SUBSEQUENT EVENTS

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through October 4, 2016, the date the financial statements were available to be issued.