

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Financial Statements

December 31, 2016

(With Independent Auditors' Report Thereon)

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of the Middle Keys, Inc.
Marathon, Florida

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of the Middle Keys, Inc. (a non-profit organization), which are comprised of the statement of financial position as of December 31, 2016, and the related statements of activities and changes in net assets, 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 and Government Auditing Standards issued by the Comptroller General of the United States. 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 Middle Keys, Inc., as of December 31, 2016 and the results of its operations and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Report on Other Legal and Regulatory Requirements

In accordance with Government Auditing Standards, we have also issued a report dated March 2, 2017 on our consideration of Habitat for Humanity of the Middle Keys, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Smith, Burgin & Associates, LLC.

Miami, Florida
March 2, 2017

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Financial Position

December 31, 2016

ASSETS

Cash	\$ 29,632
Investments	734,259
Assets held in escrow	22,667
Non-interest bearing residential mortgage loans, net of unamortized discounts of \$43,930	2,399,875
Land - restricted under lease	139,758
Property and equipment, net	640
Construction in progress	419,276
Other assets	<u>500</u>
	<u>\$3,746,607</u>

LIABILITIES AND NET ASSETS

Accounts payable	\$ 2,178
Escrow deposits	<u>27,303</u>
Total liabilities	<u>29,481</u>
Net Assets:	
Unrestricted	3,655,932
Permanently restricted	<u>61,194</u>
Total net assets	<u>3,717,126</u>
Total liabilities and net assets	<u>\$3,746,607</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Activities

For the Year Ended December 31, 2016

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE				
Sale of homes	\$ 939,895	-	-	939,895
Contributions	3,554	-	-	3,554
Interest and dividends	2,143	-	-	2,143
Fundraising events, net of direct costs of \$23,229	40,844	-	-	40,844
Grants	313,200	-	-	313,200
Lease income	10,600	-	-	10,600
Administrative and overhead fees	28,516	-	-	28,516
Other income	7,671	-	-	7,671
Net assets released from restrictions	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenues	1,346,423	-	-	1,346,423
EXPENSES				
Cost of homes sold	970,935	-	-	970,935
Program services	75,892	-	-	75,892
Supporting Services:				
General and Administrative	<u>29,797</u>	<u>-</u>	<u>-</u>	<u>29,797</u>
Total Expenses	<u>1,076,624</u>	<u>-</u>	<u>-</u>	<u>1,076,624</u>
Change in Net Assets	269,799	-	-	269,799
Net Assets, beginning of year	<u>3,386,133</u>	<u>-</u>	<u>61,194</u>	<u>3,447,327</u>
Net Assets, end of year	<u>\$3,655,932</u>	<u>-</u>	<u>61,194</u>	<u>3,717,126</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Functional Expenses

For the Year Ended December 31, 2016

	<u>Program Services</u>	<u>Management and Administration</u>	<u>Total</u>
Professional fees	4,860	540	5,400
Executive director	43,253	22,281	65,534
Insurance	4,465	1,830	6,295
Telephone and utilities	2,672	362	3,034
Postage and mailing	-	322	322
Membership dues	3,736	1,247	4,983
Office equipment, supplies, uniforms	3,182	1,045	4,227
Bank fees	-	184	184
Meetings	1,241	729	1,970
Advertising	2,735	-	2,735
Tithe to Habitat International	-	-	-
Rent	8,250	1,100	9,350
Amortization and depreciation	-	130	130
Taxes and licenses	96	27	123
Website	1,402	-	1,402
Total	<u>\$ 75,892</u>	<u>29,797</u>	<u>105,689</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Statement of Cash Flows

For the Year Ended December 31, 2016

Operating Activities	
Change in net assets	\$ 269,799
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Depreciation and amortization	130
Mortgages recorded, net of discount	(123,824)
Assets held in escrow	198
Changes in operating assets and liabilities:	
Increase in escrow deposits	4,723
Increase in accounts payable and accruals	<u>1,578</u>
Net cash provided by operating activities	<u>152,604</u>
Cash flows from investing activities:	
Land - restricted under lease	-
Equipment purchases, net	-
Construction in progress	<u>(50,805)</u>
Net cash used by investing activities	<u>(50,805)</u>
Net increase in cash and cash equivalents	101,799
Cash and cash equivalents, at beginning of year	<u>662,092</u>
Cash and cash equivalents, at end of year	<u>\$ 763,891</u>
Supplementary disclosure of cash flow information:	
Cash paid during the year for:	
Interest	<u>\$ -</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2016

1. **Organization and Purpose**

Habitat for Humanity of The Middle Keys, Inc. ("Habitat") is a not-for-profit organization, incorporated in the State of Florida on August 16, 1991. Habitat is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian not-for-profit organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness, and to make decent shelter a matter of conscience and action. Although Habitat for Humanity International assists with informational and fiscal resources, Habitat is primarily responsible for its own operations.

Habitat builds and renovates affordable homes in the Marathon and Middle Keys area of the Florida Keys through volunteer labor and with the assistance of the future low income homeowner families. Future homeowners are required to contribute three hundred fifty hours of their own labor into the building of their house as well as the houses of others. Habitat houses are sold to low income families at cost, and financed by Habitat with no interest loans over twenty to thirty year terms. Habitat's program is funded through contributions, grants, and in-kind donations, from individuals, foundations, corporations, public agencies and religious organizations.

Habitat is exempt from federal income taxations under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Habitat is generally exempt from state and local taxes. No provision for income tax is recorded in the financial statements.

2. **Summary of Significant Accounting Policies**

a) **Basis of Accounting**

Habitat prepares its financial statements 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.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2016

2. Summary of Significant Accounting Policies - (Cont.)

b) Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

c) Investments

Investments are reported at fair value. Investment income is reported as an increase in unrestricted net assets unless a donor or law temporarily or permanently restricts its use.

d) Assets Held in Escrow

Habitat currently services the mortgages on the homes it sells. Included in assets held in escrow are cash amounts received for insurance and property taxes on such homes. These cash amounts are recorded as an asset offset by a related liability.

e) Mortgages Receivable

Mortgages receivable consist of non interest bearing mortgages, secured by real estate and payable in monthly installments over twenty to thirty year terms. The mortgages are discounted based upon prevailing market rates for low income housing at the inception of the mortgage. The discount is amortized on a straight-line basis over the term of the mortgage.

Because mortgages receivable are secured by real estate, and ultimately through the process of foreclosure, management believes that such procedures will result in collection. Accordingly, no allowance for uncollectible accounts has been provided.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2016

2. Summary of Significant Accounting Policies - (Cont.)

f) Property and Equipment

Equipment purchased or contributed in excess of \$500 is capitalized. Equipment is recorded at cost if purchased and if contributed, at fair market value on the contribution date. Depreciation is computed on a straight-line basis over the following useful lives:

Building and improvement	10 to 40 years
Vehicle and office and construction equipment	5 to 10 years
Furniture and fixtures	10 years

g) Properties Held for Sale

Donated properties not intended for building are recorded at fair market value at the time of donation as properties held for sale. Occasionally Habitat receives or repossesses title to previously transferred homes. At the time of acquisition Habitat records the gross mortgage balance as properties held for sale and the corresponding unamortized mortgage discount is recorded as a gain. Any legal or holding costs associated with properties held for sale are capitalized.

h) Net Assets

Habitat classifies its net assets, revenues and gains, and expenses as unrestricted or temporarily restricted on the absence or existence of donor-imposed restrictions. These classifications are defined as follows:

Unrestricted net assets represent available resources other than donor-restricted contributions.

Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2016

2. Summary of Significant Accounting Policies - (Cont.)

i) Contributions

Unrestricted and unconditional contributions are recognized when received or pledged, if applicable. Contributions are reported as temporarily restricted if they are received with donor stipulations that limit the use of such assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities and changes in net assets as net assets released from restrictions. Habitat's policy is to present temporarily restricted net assets received during the year whose restrictions are met during the current year as unrestricted net assets.

Habitat recognizes the expiration of donor restrictions on contributions of property and equipment or cash contributions restricted for property and equipment in the year the property and equipment is placed in service.

j) Grants

Entitlement to cost or performance based reimbursement grants is conditioned on the expenditure of funds or attainment of specific performance goals in accordance with the grant restrictions and, therefore, Habitat recognizes revenue to the extent of grant expenditures or performance achieved.

k) Contributed Services and Materials

Habitat recognizes contributed services if they require specialized skills and would typically be purchased if not provided by donation. Although a substantial number of volunteers have made significant contributions of their time, their services do not meet these criteria and are not recorded in the financial statements.

l) Transfers to Homeowners

Transfers to homeowners are recorded at the sales price of the home at closing. Habitat executes a Declaration of Resale Restrictions and a Quit-Claim Deed with each homeowner. These documents are attached to the land records.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2016

2. **Summary of Significant Accounting Policies - (Cont.)**

m) **Functional Allocation of Expenses**

The costs of providing programs and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited.

n) **Use of Estimates**

Accounting principles generally accepted in the United States require management to make estimates and assumptions in preparing the financial statements. Actual results could vary from those estimates.

o) **Advertising Costs**

Advertising costs are expensed as incurred and was approximately \$2,735 for the year ended December 31, 2016.

p) **Income Taxes**

Habitat is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International.

q) **Fair Value of Financial Instruments**

Habitat's financial instruments include cash, mortgages receivable, accounts payable, and notes payable. The carrying values of financial instruments approximate their respective fair values at December 31, 2016.

3. **Investments**

Investments at December 31, 2016 consist of the following:

CD	\$ -
Money Market	734,259
	<u>\$734,259</u>

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2016

4. Mortgages Receivable

Mortgage receivables consist of non-interest bearing mortgages secured by real estate and payable in monthly installments over twenty or thirty year terms. Mortgages receivable at December 31, 2016 consist of the following:

Due in less than one year	\$ 110,197
Thereafter	<u>2,289,678</u>
	<u>\$2,399,875</u>

Of the nineteen (19) mortgages held by Habitat, all are performing. In 2015 one loan was in default and legal notice of default and demand for payment were sent to borrower. As the borrower was not able to provide remedy to the default, Habitat was forced to file a foreclosure action. In 2016 Habitat regained possession of the property and sold it.

5. Property and Equipment

Property and equipment on December 31, 2016 consist of the following:

Office equipment and furniture	\$ 1,290
Less accumulated depreciation	<u>(650)</u>
	<u>\$ 640</u>

Depreciation expense for the year ended December 31, 2016 was \$130.

HABITAT FOR HUMANITY OF THE MIDDLE KEYS, INC.

Notes to Financial Statements

December 31, 2016

6. Land - Restricted Under Lease

Habitat acquired a parcel of land in 2010 that included four (4) single family townhome residences that were to be sold. The four (4) homes were sold during a prior fiscal year. The sale of these homes did not include the land. A ninety-nine (99) year lease was executed between Habitat and the buyer. The land remains on the books as restricted and no encumbrance can be placed upon it. The carrying value of this restricted land is \$60,034. During 2013 and continuing into 2016, Habitat began to improve various sites for construction. An additional \$79,110 has been reflected as part of land restricted under lease. A total of \$614 in site improvements was incurred in 2016.

In addition, Habitat also has other land parcels on which homes have been built and sold with title to the land remaining with Habitat. No value was assigned to this land as it was donated to Habitat and no value was reflected on the books at the time of donation. The estimated value of the land based on Monroe County tax records is approximately \$200,000.

7. Special Fundraising Events

During the year ended December 31, 2016, Habitat conducted the following fundraising events:

	Gross Receipts	Expenses	Net Fundraising Income
Dolphin tournament	\$ 48,523	\$21,539	\$26,984
Miscellaneous events	15,550	1,690	13,860
	<u>\$ 64,073</u>	<u>\$23,229</u>	<u>\$40,844</u>

8. Transactions with Habitat for Humanity International

Habitat annually tithes a portion of its contributions to Habitat for Humanity International which uses the funds exclusively to construct homes in economically depressed areas around the world. The contributions to Habitat for Humanity International for the year ended December 31, 2016 were \$0.

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INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Directors of
Habitat for Humanity of the Middle Keys, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity of the Middle Keys (the "Organization") (a nonprofit organization), which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated March 2, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Organization's internal control over financial reporting ("internal" control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Organization's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Smith, Buzzi & Associates, LLC.

Miami, Florida
March 2, 2017