



LEXINGTON HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

LEXINGTON HABITAT FOR HUMANITY, INC.

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JUNE 30, 2017 AND 2016

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Lexington Habitat for Humanity, Inc.
Lexington, Kentucky

We have audited the accompanying financial statements of Lexington Habitat for Humanity, Inc. ("Habitat"), which comprise the statements of financial position as of June 30, 2017 and 2016 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 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.

To the Board of Directors
Lexington Habitat for Humanity, Inc.
Lexington, Kentucky

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat as of June 30, 2017 and 2016, 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.

Blue & Co., LLC

Lexington, Kentucky
December 4, 2017

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2017 AND 2016

	ASSETS	
	<u>2017</u>	<u>2016</u>
Cash and cash equivalents	\$ 230,294	\$ 264,556
Accounts and grants receivable	122,528	134,695
Pledges receivable, net	8,450	17,482
Inventory	14,611	13,563
Prepaid expenses	67,743	34,463
Non-interest bearing mortgage loans, net	5,226,494	5,187,543
Homes under construction	419,777	392,848
Land and property held for sale or development	420,068	681,567
Building and equipment, net	1,052,452	856,521
Investments at fair value	927,921	896,222
	<u> </u>	<u> </u>
Total assets	<u>\$ 8,490,338</u>	<u>\$ 8,479,460</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 197,058	\$ 197,621
Accrued liabilities	418,080	333,307
Deferred lease incentive	87,500	-0-
Line of credit	210,000	220,000
Notes payable	1,036,889	1,062,612
Total liabilities	<u>1,949,527</u>	<u>1,813,540</u>
Net assets		
Unrestricted	5,546,523	5,647,123
Temporarily restricted:		
To be received in future years	8,450	17,482
Endowment earnings	45,337	93,554
	<u>53,787</u>	<u>111,036</u>
Permanently restricted, endowment	<u>940,501</u>	<u>907,761</u>
	<u> </u>	<u> </u>
Total net assets	<u>6,540,811</u>	<u>6,665,920</u>
	<u> </u>	<u> </u>
Total liabilities and net assets	<u>\$ 8,490,338</u>	<u>\$ 8,479,460</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues and other support				
ReStore sales	\$ 1,996,464	\$ -0-	\$ -0-	\$ 1,996,464
Grants	262,216	-0-	-0-	262,216
Contributions and fundraising	917,888	-0-	4,228	922,116
Transfers to homeowners	411,175	-0-	-0-	411,175
Interest income from mortgage discount amortization	452,274	-0-	-0-	452,274
Special events, net of donor benefits	136,342	-0-	28,512	164,854
Gifts in-kind	95,634	-0-	-0-	95,634
Other income	37,989	-0-	-0-	37,989
Investment return	43,831	-0-	-0-	43,831
Loss on lot sales	(29,719)	-0-	-0-	(29,719)
Loss on equipment dispositions	(663)	-0-	-0-	(663)
Released from restrictions and used for programs	57,249	(57,249)	-0-	-0-
Total revenues and other support	<u>4,380,680</u>	<u>(57,249)</u>	<u>32,740</u>	<u>4,356,171</u>
Expenses				
Program	3,934,740	-0-	-0-	3,934,740
Management and general	129,350	-0-	-0-	129,350
Fundraising	417,190	-0-	-0-	417,190
Total expenses	<u>4,481,280</u>	<u>-0-</u>	<u>-0-</u>	<u>4,481,280</u>
Change in net assets	(100,600)	(57,249)	32,740	(125,109)
Net assets, beginning of year	<u>5,647,123</u>	<u>111,036</u>	<u>907,761</u>	<u>6,665,920</u>
Net assets, end of year	<u>\$ 5,546,523</u>	<u>\$ 53,787</u>	<u>\$ 940,501</u>	<u>\$ 6,540,811</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues and other support				
ReStore sales	\$ 1,706,259	\$ -0-	\$ -0-	\$ 1,706,259
Grants	678,618	-0-	-0-	678,618
Contributions and fundraising	896,368	-0-	2,899	899,267
Transfers to homeowners	547,367	-0-	-0-	547,367
Interest income from mortgage discount amortization	477,937	-0-	-0-	477,937
Special events, net of donor benefits	98,183	-0-	34,590	132,773
Gifts in-kind	98,432	-0-	-0-	98,432
Other income	34,885	-0-	-0-	34,885
Investment return	(95,874)	-0-	-0-	(95,874)
Gain on lot sales	17,779	-0-	-0-	17,779
Loss on equipment dispositions	(1,189)	-0-	-0-	(1,189)
Released from restrictions used for programs	68,725	(68,725)	-0-	-0-
Total revenues and other support	4,527,490	(68,725)	37,489	4,496,254
Expenses				
Program	3,638,380	-0-	-0-	3,638,380
Management and general	131,647	-0-	-0-	131,647
Fundraising	436,028	-0-	-0-	436,028
Total expenses	4,206,055	-0-	-0-	4,206,055
Change in net assets	321,435	(68,725)	37,489	290,199
Net assets, beginning of year	5,325,688	179,761	870,272	6,375,721
Net assets, end of year	\$ 5,647,123	\$ 111,036	\$ 907,761	\$ 6,665,920

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

	Program Services	Management and General	Fund Raising	Total Services
Salaries	\$ 1,346,672	\$ 35,059	\$ 234,721	\$ 1,616,452
Building materials and supplies	1,364,089	-0-	-0-	1,364,089
Employee fringe benefits and payroll taxes	299,745	7,003	47,020	353,768
Rent expense	265,313	-0-	-0-	265,313
Office	69,850	7,704	28,094	105,648
Repairs and maintenance	79,015	4,152	7,165	90,332
Depreciation expense	51,666	32,200	281	84,147
Professional fees	51,616	3,830	26,654	82,100
Utilities	70,330	3,311	4,001	77,642
Advertising	54,864	303	2,784	57,951
Insurance	53,364	991	1,338	55,693
ReStore cost of goods sold	49,923	-0-	-0-	49,923
Special events Habitat for Humanity International, Inc. fees and tithes	-0- 42,000	-0- -0-	45,491 -0-	45,491 42,000
Bank and merchant account charges	36,800	128	3,245	40,173
Interest expense	11,063	23,420	-0-	34,483
Vehicle expense	34,388	-0-	84	34,472
Telephone	16,257	1,836	2,878	20,971
Partner family expenses	16,366	-0-	-0-	16,366
Seminars and conferences	8,511	4,065	2,245	14,821
Travel and meals	5,418	3,208	4,141	12,767
Equipment rental	4,156	1,922	784	6,862
Unfulfilled pledges	-0-	-0-	4,376	4,376
Postage	2,204	218	1,888	4,310
Post sale home repairs	1,130	-0-	-0-	1,130
Total expenses	\$ 3,934,740	\$ 129,350	\$ 417,190	\$ 4,481,280

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2016

	Program Services	Management and General	Fund Raising	Total Services
Building materials and supplies	\$ 1,482,992	\$ -0-	\$ -0-	\$ 1,482,992
Salaries	1,153,053	40,763	251,454	1,445,270
Employee fringe benefits and payroll taxes	252,921	6,012	50,498	309,431
Rent expense	203,407	-0-	-0-	203,407
Office	57,418	7,358	26,855	91,631
Repairs and maintenance	68,468	5,292	6,997	80,757
Professional fees	55,879	3,285	13,690	72,854
Advertising	61,394	194	8,654	70,242
Depreciation expense	33,996	32,544	1,669	68,209
Utilities	56,841	3,654	4,415	64,910
Insurance	49,576	753	1,020	51,349
Special events	-0-	-0-	44,673	44,673
Habitat for Humanity International, Inc. fees and tithes	44,250	-0-	-0-	44,250
Interest expense	12,562	21,919	-0-	34,481
Bank and merchant account charges	26,939	99	2,586	29,624
Vehicle expense	25,897	-0-	15	25,912
Travel and meals	9,164	3,933	7,392	20,489
Telephone	14,551	2,007	2,936	19,494
Seminars and conferences	9,396	1,895	2,662	13,953
Equipment rental	6,052	1,666	3,467	11,185
Postage	4,196	273	1,850	6,319
Partner family expenses	5,628	-0-	-0-	5,628
Unfulfilled pledges	-0-	-0-	5,195	5,195
Post sale home repairs	3,800	-0-	-0-	3,800
Total expenses	\$ 3,638,380	\$ 131,647	\$ 436,028	\$ 4,206,055

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2017 AND 2016

	2017	2016
Operating Activities		
Change in net assets	\$ (125,109)	\$ 290,199
Adjustments to reconcile change in net assets to net change from operating activities:		
Depreciation	84,147	68,209
Transfers to homeowners	(411,175)	(547,367)
Imputed interest income from non-interest bearing mortgage loans	(452,274)	(477,937)
Discount on pledges receivable	1,543	-0-
Realized and unrealized (gains) on investments	(35,595)	104,632
Loss (gain) on disposal of equipment	663	1,189
Loss (gain) on sale or write off of mortgage loan	104,419	235,837
Unfulfilled pledges	4,376	5,195
Special event revenue restricted for long-term investment	(28,512)	(34,590)
Donated equipment	(12,106)	(2,781)
Changes in operating assets and liabilities:		
Accounts and grants receivable	12,167	69,181
Pledges receivable, net	3,113	7,030
Inventory	(1,048)	31,930
Prepaid expenses	(33,280)	(9,303)
Homes under construction	(26,929)	(158,670)
Land and property held for sale or development	261,499	14,598
Accounts payable	(563)	25,194
Accrued liabilities	84,773	73,499
Deferred lease incentive	87,500	-0-
Net cash flows from operating activities	(482,391)	(303,955)

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2017 AND 2016

	<u>2017</u>	<u>2016</u>
Investing Activities		
Proceeds from sales of property and equipment	1,500	1,500
Purchases of property and equipment	(270,135)	(150,912)
Non-interest bearing mortgage loan payments received	720,079	851,401
Proceeds from sales of investments	800,527	1,234,015
Purchases of investments	(796,631)	(1,214,543)
Net cash flows from investing activities	<u>455,340</u>	<u>721,461</u>
Financing Activities		
Special events revenue restricted for endowment	28,512	34,590
Proceeds from line of credit and notes payable	130,000	37,691
Payments on line of credit and notes payable	(165,723)	(410,198)
Net cash flows from financing activities	<u>(7,211)</u>	<u>(337,917)</u>
Net change in cash	(34,262)	79,589
Cash, beginning of year	<u>264,556</u>	<u>184,967</u>
Cash, end of year	<u><u>\$ 230,294</u></u>	<u><u>\$ 264,556</u></u>
Supplemental disclosures		
In-kind contributions of equipment	<u>\$ 12,106</u>	<u>\$ 2,781</u>
In-kind contributions of land and construction supplies	<u>\$ 46,454</u>	<u>\$ 51,734</u>
Cash paid for interest during the year	<u>\$ 42,000</u>	<u>\$ 44,250</u>
Discount on current year non-interest bearing mortgage loans	<u>\$ 567,630</u>	<u>\$ 554,569</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Lexington Habitat for Humanity, Inc. (Habitat), a nonprofit corporation, was incorporated on November 26, 1986. Habitat 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 is primarily and directly responsible for its own operations.

In 2001, Habitat opened a discount home improvement outlet called ReStore. ReStore sells donated new and gently used furniture, home accessories, building supplies, and appliances. All ReStore proceeds benefit Habitat. ReStore gross revenues were approximately 45% and 38% of total revenues, respectively, for the years ended June 30, 2017 and 2016.

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual method of accounting. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred.

Financial Statement Presentation

Net assets and revenues and other support are classified based on the existence or absence of donor-imposed restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. Accordingly, the net assets of Habitat and the changes therein are classified and reported as follows:

- 1) Unrestricted net assets encompass the portion of net assets that are not restricted by donor-imposed stipulations.
- 2) Temporarily restricted net assets are the net assets resulting from contributions and other inflows whose use by Habitat is limited by donor-imposed stipulations that either expire by passage of time or can be fulfilled and removed by actions of Habitat pursuant to those stipulations.
- 3) Permanently restricted net assets are the net assets resulting from contributions to the Pat Smith Endowment fund. These contributions are to be invested and the earnings will be used to support local and international service projects.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results could differ from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with an original maturity of three months or less.

Investments

Investments in equity and debt securities that have a readily determinable fair value are reported at fair value in the statement of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in unrestricted net assets if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Accounts and Pledges Receivable

Accounts receivable primarily consists of grants earned, but not yet received. Grants are recorded at the amount Habitat expects to collect on outstanding balances. Habitat has not recorded an allowance for uncollectible grant receivables, as historically, they have not experienced materially uncollectible amounts.

Pledges receivable consists of unconditional pledges received from individual donors. Unconditional pledges receivable that are expected to be collected within one year are recorded at net realizable value. Unconditional pledges that are expected to be collected in future years are recorded at the present value of their future cash flows. The discounts on those amounts are computed using a discount rate reflective of current interest rates. Amortization of the discounts is included in contributions income.

Receivables are considered past due based on contractual terms and Habitat does not accrue finance charges on its past due receivables. Receivables deemed to be uncollectible are written off in the period in which the determination is made. Management believes there is no significant risk of loss associated with the receivables recorded at June 30, 2017 and 2016, and accordingly no provision for bad debts has been provided in the accompanying financial statements. Unfulfilled pledges written off for the years ended June 30, 2017 and 2016, related to receivables were approximately \$4,000 and \$5,000, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Non-Interest Bearing Mortgage Loans, Net

Habitat records and accounts for non-interest bearing loans using the discounted cash flow method based on Habitat's current incremental borrowing rates for similar types of borrowing arrangements. These rates vary from 6.0% to 9.0% based upon the prevailing market rate at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. The discounted carrying amount of these loans approximates their fair value. An expense is recorded upon the sale of the houses for the difference between the face value of the mortgage loans receivable and the present value of the loans. The mortgages are secured by the real estate and due in monthly installments over the life of the mortgages, which range from 15 to 40 years. Two notes are issued to every homeowner; one being the amount the board has set (the first note), the other being the difference between the amount of the first note and the appraised value of the home. After a period of time designated in the mortgage, the second note, which is not recorded by Habitat, is forgiven, annually, at a prorated amount designated in the mortgage such that before or at the maturity date of the first note, the second note would be forgiven in full. Habitat's policy is to work closely with homeowners to avoid defaulted mortgages.

Habitat has not recorded an allowance for uncollectible mortgages because it can reclaim houses through foreclosure. Though some of these mortgages may be foreclosed, Habitat believes that losses on foreclosure, if any, are immaterial in relation to these financial statements.

Inventory

Inventory consists of construction materials that were donated or purchased by Habitat. Inventory is valued at the market value of the donation or cost of the asset on the first in, first out method.

Homes Under Construction

Homes under construction include the direct and indirect costs of construction, land, and the estimated fair market value of donated materials and professional services used in construction of homes. Transfer to homeowners is recorded when the home is occupied and title is transferred.

Land and Property Held for Sale or Development

Land or property held for sale or development includes the cost of land and improvements to land or, if donated, the approximate fair value of the land at the date of the donation, held for sale or future development and properties previously transferred by Habitat which have been reclaimed in foreclosure, which are recorded at the outstanding first note balance at the date of foreclosure.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

ReStore Inventory

Most of the store's merchandise has been donated by building supply stores and by individuals in the community. Because many of the donations are the result of overstocked items or are used items, the value of the donations is not readily determinable until such merchandise is sold. Therefore, retail inventory of the store has not been recorded in these financial statements. Retail sales are recorded at the point of sale.

Building and Equipment

Building and equipment consist of land, construction in progress, leasehold improvements, and furniture and equipment which are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 40 years. Acquisitions of property and equipment in excess of \$500 are capitalized. The cost of repairs and maintenance is expensed as incurred.

Contributions

Contributions are recorded when received as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. When a donor restriction is met, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as released from restrictions used for programs. Restricted contributions whose restrictions are satisfied in the period the contributions are received are reported as unrestricted contributions.

Gifts In-kind

Property, equipment, land, materials, and supplies, which are donated as support, are recorded at estimated fair values on the date of donation. Such donations are reported as "unrestricted" support unless the donor has restricted the contributions to a specific purpose. Assets donated with explicit restrictions as to their use are reported as "restricted". Habitat reports expirations of donor restrictions when the donated assets are placed in service as instructed by the donor. Habitat reclassifies temporarily restricted net assets to unrestricted net assets when the donor's restriction is satisfied. During the years ended June 30, 2017 and 2016, Habitat received approximately \$58,600 and \$54,500 of donated property, equipment, land, materials, and supplies.

The values of professional services are recorded at estimated fair values when they create or enhance nonfinancial assets or they require specialized skills which would need to be purchased if they were not donated. Habitat received approximately \$37,100 and \$43,900 of donated professional services for the years ended June 30, 2017 and 2016, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

A substantial number of volunteers have made significant contributions of time to assist Habitat's program and supporting services. No amounts have been recognized in the accompanying statements of activities for these volunteer services because accounting standards criteria for recognition have not been satisfied.

Transfers to Homeowners

Transfers to homeowners are recorded at the first note mortgage amount. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages, as provided by Habitat International. Utilizing the effective interest method, this discount will be recognized as interest income over the term of the mortgage.

Advertising Costs

Advertising costs are expensed when incurred.

Functional Allocation of Expenses

The costs of providing various programs and supporting services have been summarized on a functional basis in the statement of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. While the methods of allocation are considered appropriate, other methods could produce different results.

Income Taxes

Habitat is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, Habitat has been determined by the Internal Revenue Service not to be a private foundation within the context of Section 509(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Habitat and recognize a tax liability if Habitat has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by Habitat, and has concluded that as of June 30, 2017 and 2016 there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. Habitat is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Habitat has filed its federal information returns for periods through June 30, 2016. These information returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Going Concern

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are issued.

Subsequent Events

Habitat has evaluated events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through, December 4, 2017, the date which the financial statements were available to be issued.

2. PLEDGES RECEIVABLE, NET

Pledges receivable, net of discounts to present value (at a rate of 4.75%) at June 30 are as follows (certain amounts receivable in less than one year were receivable as of June 30):

	<u>2017</u>	<u>2016</u>
Receivable in less than one year	\$ 8,450	\$ 11,600
Receivable in more than one year	-0-	7,425
	<u>8,450</u>	<u>19,025</u>
Less discounts to net present value	-0-	1,543
	<u>\$ 8,450</u>	<u>\$ 17,482</u>

3. NON-INTEREST BEARING MORTGAGE LOANS, NET

Maturities of non-interest bearing mortgage loans receivable as of June 30, 2017 are as follows:

<u>Year ended June 30:</u>	
2018	\$ 740,484
2019	681,754
2020	666,530
2021	636,254
2022	627,657
2023 and thereafter	<u>6,020,263</u>
	9,372,942
Less discount	<u>(4,146,448)</u>
	<u>\$ 5,226,494</u>

As of June 30, 2016, non-interest bearing mortgage loans receivable, net of unamortized discounts, totaled \$5,187,543.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

4. HOMES UNDER CONSTRUCTION AND LAND AND PROPERTY HELD FOR SALE OR DEVELOPMENT

A summary of activity in homes under construction and land and property held for sale or development for the year ended June 30, 2017:

	<u>Homes under construction</u>	<u>Land and property held for sale or development</u>
Balance at June 30, 2016	\$ 392,848	\$ 681,567
Gifts in-kind and donations	75,410	-0-
Property acquired via foreclosure	-0-	56,694
Purchases and additional cost incurred	1,048,250	44,898
Transfers of land	168,217	(168,217)
Property transfers (sold)	-0-	(194,874)
Cost of completed homes transferred out	(1,264,948)	-0-
Balance at June 30, 2017	<u>\$ 419,777</u>	<u>\$ 420,068</u>

A summary of activity in homes under construction and land and property held for sale or development for the year ended June 30, 2016:

	<u>Homes under construction</u>	<u>Land and property held for sale or development</u>
Balance at June 30, 2015	\$ 234,178	\$ 696,165
Gifts in-kind	51,049	15,400
Property acquired via foreclosure	-0-	235,179
Purchases and additional cost incurred	1,235,808	52,664
Transfers of land	226,029	(233,313)
Property transfers (sold)	-0-	(84,528)
Cost of completed homes transferred out	(1,354,216)	-0-
Balance at June 30, 2016	<u>\$ 392,848</u>	<u>\$ 681,567</u>

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

5. BUILDING AND EQUIPMENT, NET

Building and equipment, net consist of the following at June 30:

	2017	2016
Office building and improvements	\$ 1,144,583	\$ 909,219
Land	89,250	89,250
Office furniture	65,716	70,922
Warehouse equipment	131,517	116,655
Vehicles	200,892	187,631
	1,631,958	1,373,677
Less accumulated depreciation	579,506	517,156
	\$ 1,052,452	\$ 856,521

Habitat has no material commitments as of June 30, 2017.

6. INVESTMENTS

Investments consist of the following at June 30:

	2017		2016	
	Cost	Value	Cost	Value
Money market mutual funds	\$ 34,025	\$ 34,025	\$ 159,321	\$ 159,321
Common stocks	345,556	398,468	282,522	303,859
Mutual funds	-0-	-0-	161,017	159,340
Exchange traded and closed-end funds	431,175	495,428	219,766	273,702
	\$ 810,756	\$ 927,921	\$ 822,626	\$ 896,222
Total investments	\$ 810,756	\$ 927,921	\$ 822,626	\$ 896,222

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

Investment income and expenses were as follows for the year ended June 30:

	2017	2016
Dividend and interest income	\$ 17,904	\$ 18,809
Realized and unrealized gains	35,595	(104,632)
Investment expenses	(9,668)	(10,051)
	<u>\$ 43,831</u>	<u>\$ (95,874)</u>

7. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Habitat has the ability to access.
- Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
- Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs. Habitat's policy is to recognize transfers between levels as of the end of the reporting period. There were no transfers between levels during 2017 and 2016.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2017 and 2016.

- Money market mutual funds: Generally transact subscription and redemption activity at a \$1 stable net asset value (NAV) however, on a daily basis the funds are valued at their daily NAV calculated using the amortized cost of the securities held in the fund.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

- Common stock and exchange traded and closed end funds: Valued at the closing price reported on the active market on which the securities are traded.
- Mutual funds, exchange-traded, and closed-end funds: Valued at the daily closing price as reported by the respective funds. These funds are registered with the Securities and Exchange Commission, publish their daily net asset value (NAV), and transact at that price. Deemed to be actively traded.

Fair Value Measurements at June 30, 2017:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market mutual funds	\$ -0-	\$ 34,025	\$ -0-	\$ 34,025
Common stocks	398,468	-0-	-0-	\$ 398,468
Exchange-traded and closed-end funds	495,428	-0-	-0-	\$ 495,428
Total	<u>\$ 893,896</u>	<u>\$ 34,025</u>	<u>\$ -0-</u>	<u>\$ 927,921</u>

Fair Value Measurements at June 30, 2016:

	Level 1	Level 2	Level 3	Total
Investments:				
Money market mutual funds	\$ -0-	\$ 159,321	\$ -0-	\$ 159,321
Common stocks	303,859	-0-	-0-	303,859
Mutual funds	159,340	-0-	-0-	159,340
Exchange-traded and closed-end funds	273,702	-0-	-0-	273,702
Total	<u>\$ 736,901</u>	<u>\$ 159,321</u>	<u>\$ -0-</u>	<u>\$ 896,222</u>

8. LINE OF CREDIT

At June 30, 2017 and 2016, Habitat has available a secured line of credit, which provides for borrowing up to \$500,000. Interest is payable monthly and is fixed at the prime rate, which was 4.25% and 3.50%, respectively, at June 30, 2017 and 2016. The current agreement expires in March 2018. The line of credit is secured by the assignment of mortgages of properties located in Lexington, Kentucky. The outstanding balance on the line of credit as of June 30, 2017 and 2016 was \$210,000 and \$220,000 respectively. Interest expense related to the line of credit during the years ended June 30, 2017 and 2016 was approximately \$8,000 and \$9,000, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

9. NOTES PAYABLE

Notes payable as of June 30, 2017 and 2016 consist of the following:

	2017	2016
<p>4.0% installment note payable to Kentucky Housing Corporation, dated August 1, 2001. Principal and interest payments due in 180 monthly installments of \$1,812. The note is secured by a pledge of notes and mortgages held by Habitat with a net book value of \$5,226,494 and \$5,187,543 at June 30, 2017 and 2016, respectively. The note was paid in full in July 2016.</p>	\$ -0-	\$ 1,805
<p>15 separate, non-interest bearing notes payable to Habitat International. The notes are payable in 48 monthly installments with due dates ranging between July 2013 and December 2021. The notes are unsecured full recourse obligations of Habitat. If the loans default, they become payable on demand plus interest at 10% from the date of the loan's inception.</p>	98,367	160,821
<p>1% installment note payable to Kentucky Housing Corporation in 30 annual installments of principal and interest in the amount of \$5,812. The note is unsecured. Final payment due on June 30, 2034.</p>	90,451	94,214
<p>Eight 1% installment notes payable, unsecured, to Bluegrass Affordable Housing Association in 20 annual installments. Interest is due quarterly and principal in the amount of \$30,980 is due annually. Five are due on June 1, two August 1, and one October 1, with the final payments maturing each year from 2022 through 2030.</p>	233,745	264,725
<p>Construction note payable to bank dated December 20, 2016. Loan approved by bank for up to \$160,000. At June 30, 2017, \$100,000 had been drawn. Monthly interest-only payments due at 4.50% during the initial eighteen months (construction term). Principal and interest payments due monthly during the final one hundred and eighty months (permanent term). The interest rate for the first forty-two months of the permanent term is 4.50%. The interest rate for the final one hundred thirty-eight months of the permanent term is the Wall Street Journal prime rate (4.25% at June 30, 2017). Secured by land and improvements thereon located at 700 Loudon Avenue, Lexington, Kentucky. Entire principal due June 20, 2033.</p>	100,000	-0-

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

	2017	2016
<p>Installment note payable to bank dated March 19, 2015. Original amount of \$541,500. Principal and interest payments due in monthly installments of \$3,228 with a final payment due March 19, 2035. The note is secured by property located at 700 East Loudon Avenue, Lexington, Kentucky with a net book value of approximately \$628,000 and \$539,000 at June 30, 2017 and 2016, respectively.</p>	491,797	510,884
<p>Installment note payable to bank dated March 19, 2015. Original amount of \$45,000. Principal and interest payments due in monthly installments of \$722 with a final payment due March 19, 2020. The note is secured by property located at 700 East Loudon Avenue, Lexington, Kentucky with a net book value of approximately \$628,000 and \$539,000 at June 30, 2017 and 2016, respectively.</p>	22,529	30,163
Total	\$ 1,036,889	\$ 1,062,612

The following is a summary of debt maturities as of June 30, 2017:

<u>Year ended June 30:</u>	
2018	\$ 110,521
2019	86,271
2020	73,372
2021	66,883
2022	58,539
2023 and thereafter	641,303
	\$ 1,036,889

Interest expense for these notes for the years ended June 30, 2017 and 2016 was approximately \$26,000 and \$25,000 respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

10. ENDOWMENT FUNDS

In approving endowment and related policies as part of the prudent and diligent discharge of its duties, Habitat's Board of Directors, as authorized by Kentucky law, has relied upon the actions, reports, information, advice and counsel taken or provided by its duly constituted committees and the duly appointed officers of Habitat and in doing so has interpreted the law to require the preservation of the historic dollar value of donor restricted endowment funds, absent explicit donor direction to the contrary.

As a result of this interpretation, for accounting and financial statement purposes, Habitat classifies as permanently restricted net assets the historic dollar value of assets held as donor-restricted endowment, including any subsequent gifts and any accumulations to donor-restricted endowments made in accordance with the direction of the applicable gift instruments.

The portion of the donor restricted endowment funds that are not classified as permanently restricted net assets are classified for accounting and financial reporting purposes in accordance with requirements of the Financial Accounting Standards Board and the law.

Habitat has an investment policy, approved by the Board of Directors, for its endowment fund. The Board of Directors has appointed an agent to execute its investment policy. The primary goals of the investment policy are to maximize return on the investments through interest and dividends and appreciation of capital within acceptable levels of investment risk, and to provide a source of funds to support operations as needed. Habitat's investment policy works to achieve this objective. At the Board's discretion, execution of the investment policy may be delegated to investment managers.

All endowment funds at June 30, 2017 and 2016 are donor-restricted. Each fiscal year a distribution from the endowment funds will be made to the operating funds in an amount of at least 5% of the fair market value of the endowment funds calculated on the basis of market values determined quarterly and averaged over a period of the three fiscal years immediately preceding the fiscal year in which the appropriation is made. The distribution shall not exceed 7% in any given year unless it has been approved by the Board of Directors as a special circumstance.

From time to time, the fair value of assets associated with the endowment fund may fall below the level that the donor or the Uniform Prudent Management of Institutional Funds Act requires Habitat to retain as a fund of perpetual duration. In accordance with accounting principles generally accepted in the United States of America, there were no such deficiencies of this nature that are reported in unrestricted net assets as of June 30, 2017 and 2016.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016

Changes in endowment net assets for the year ended June 30, 2017 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ (102,711)	\$ 93,554	\$ 907,761	\$ 898,604
Contributions	-0-	-0-	4,228	4,228
Special events revenues	-0-	-0-	38,860	38,860
Special events expenses	-0-	-0-	(10,348)	(10,348)
Investment income	17,904	-0-	-0-	17,904
Investment expenses	(9,668)	-0-	-0-	(9,668)
Net realized and unrealized gains and losses on investments	35,595	-0-	-0-	35,595
Amount appropriated for expenditure	-0-	(48,217)	-0-	(48,217)
Endowment net assets, end of year	<u>\$ (58,880)</u>	<u>\$ 45,337</u>	<u>\$ 940,501</u>	<u>\$ 926,958</u>

Changes in endowment net assets for the year ended June 30, 2016 are as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	\$ -0-	\$ 150,054	\$ 870,272	\$ 1,020,326
Contributions	-0-	-0-	2,899	2,899
Special events revenues	-0-	-0-	46,020	46,020
Special events expenses	-0-	-0-	(11,430)	(11,430)
Other changes	(6,837)	-0-	-0-	(6,837)
Investment returns	18,809	-0-	-0-	18,809
Investment expenses	(10,051)	-0-	-0-	(10,051)
Net realized and unrealized gains and losses on investments	(104,632)	-0-	-0-	(104,632)
Amount appropriated for expenditure	-0-	(56,500)	-0-	(56,500)
Endowment net assets, end of year	<u>\$ (102,711)</u>	<u>\$ 93,554</u>	<u>\$ 907,761</u>	<u>\$ 898,604</u>

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

11. GRANTS AWARDED

Habitat receives financial assistance from various sources, such as corporations and local governments. Habitat recognizes the award as grant revenue when the conditions stipulated in the grant agreement have been met. Funds by the grantors for the following programs may be requested for future program expenditures as of June 30:

Grant award	2017	2016
FHLB Affordable Housing Program award 201401-0002	-0-	2,283
FHLB Affordable Housing Program award 201401-0003	16,723	61,469
FHLB Affordable Housing Program award 201501-0011	9,175	162,158
FHLB Affordable Housing Program award 201501-0026	29,019	44,000
FHLB Affordable Housing Program award 201601-0025	106,250	-0-
FHLB Affordable Housing Program award 201601-0026	106,250	-0-
HOME investment Partnerships Program 2014 Consolidated Plan	-0-	119,994
HOME investment Partnerships Program 2015 Consolidated Plan	60,000	-0-
HOME investment Partnerships Program 2016 Consolidated Plan	50,000	-0-
KHC GAP	120,000	-0-
	<u>\$ 497,417</u>	<u>\$ 389,904</u>

12. RETIREMENT

Habitat maintains a 401(k) defined contribution pension plan (the Plan) for employees 18 years of age and over who are enrolled in the Plan in the first day of the month after twelve months from the date of employment. Employee benefits are immediately vested. Habitat will contribute five percent (5%) of the eligible employees' gross wages. The Plan permits eligible employees to make voluntary contributions. During each of the years ended June 30, 2017 and 2016, Habitat contributed approximately \$52,000.

13. LEASE AGREEMENTS

Habitat maintains a building lease under a non-cancelable operating lease that expires September 30, 2022. During the year ended June 30, 2017, Habitat signed an addendum to the original building lease adding additional space to the leased premises. As an inducement for Habitat to enter into the addendum, the landlord paid Habitat \$100,000 as a lease incentive. The lease incentive is recorded as a liability and is being amortized into rent expense over the life of the lease.

Rent expense related to this lease totaled approximately \$252,000 and \$190,000 for the years ending June 30, 2017 and 2016, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

As of June 30, 2017, future minimum lease payments under this noncancelable operating lease agreement are as follows:

<u>Year ended June 30:</u>		
2018	\$	294,165
2019		300,075
2020		306,060
2021		312,195
2022		318,465
2023 and thereafter		80,010
	\$	<u>1,610,970</u>

In addition to the minimum lease payments above, Habitat is responsible for paying its pro-rata share (based on square footage it occupies to the total square footage available for rent) of taxes, assessments, levies, deferred taxes, license fees, property insurance, water rents, dumpster fees, landfill fees, sewer fees, excises, franchises, common area maintenance fees and the like (common costs). Total common cost expenses during the years ended June 30, 2017 and 2016 were approximately \$43,000 and \$34,000 respectively. Storage rent expenses during each of the years ended June 30, 2017 and 2016, were approximately \$13,000.

14. RELATED-PARTY TRANSACTIONS

During the years ended June 30, 2017 and 2016, Habitat paid tithes and fees to Habitat for Humanity International, Inc. (HFHI) of \$42,000 and \$44,250, respectively. Additionally, Habitat received grants and other support from HFHI of approximately \$-0- and \$134,000 during the years ended June 30, 2017 and 2016, respectively. Amounts paid to HFHI during the years ended June 30, 2017 and 2016 to return grant funds previously received were approximately \$36,000 and \$-0-, respectively.

15. CONCENTRATION OF RISK

Habitat maintains cash deposits in financial institutions which are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000. Habitat has not experienced any losses on such accounts and does not believe that it is subject to significant credit risk related to the accounts.

Habitat is supported primarily through grants from federal, state, and local governments and donations from foundations and individuals. Historically, a significant portion of grants and donations were provided by a few major grantors and donors, including HFHI, Lexington-Fayette Urban County Government, and Kentucky Housing Corporation. It is always considered reasonably possible that grantors or donors might be lost in the near term.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2017 AND 2016

16. CHANGE IN ACCOUNTING PRINCIPLE

During 2017, Habitat adopted Accounting Standards Update (ASU) No. 2014-15, *Presentation of Financial Statements – Going Concern (Topic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern*. ASU No. 2014-15 requires management to evaluate whether there are conditions or events that raise substantial doubt about the entity’s ability to continue as a going concern for a period of one year from the date the financial statements are issued. When conditions or events that raise substantial doubt exist, additional disclosures will be required to enable financial statement users to understand those conditions or events, management’s evaluation of them and management’s plans that either alleviated substantial doubt or are intended to mitigate the conditions or events that raise substantial doubt. The adoption of ASU No. 2014-15 did not have a material effect on the accompanying financial statements.

17. RECENTLY ISSUED ACCOUNTING STANDARDS

On May 28, 2014, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers (Topic 606)*. The core principle of this new guidance is that “an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services”. On August 12, 2015, the FASB further amended this guidance and issued ASU 2015-14, *Revenue from Contracts with Customers (Topic 606)*, which deferred the effective date for all entities by one year. These new standards, which Habitat is not required to adopt until its year ending June 30, 2019, deal with the timing of reporting revenues from contracts with customers, and disclosures related thereto.

On January 5, 2016, the FASB issued ASU No. 2016-01, *Financial Instruments-Overall (Subtopic 825-10): Recognition and Measurement of Financial Assets and Financial Liabilities*. This new standard, which Habitat is not required to adopt until its year ending June 30, 2020, is intended to enhance the reporting model for financial instruments to provide users of financial statements with more decision-useful information. The primary impact on Habitat will be that changes in the fair value of equity investments will be recognized in net income, rather than in other comprehensive income as currently required.

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which Habitat is not required to adopt until its year ending June 30, 2021, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases, and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity’s statement of financial position.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 AND 2016

On August 18, 2016, the FASB issued an Accounting Standards Update (ASU) No. 2016-14 *Presentation of Financial Statements of Not-for-Profit Entities (Topic 958)* that amends how a not-for-profit organization classifies its net assets, as well as the information it presents in financial statements and notes about its liquidity, financial performance, and cash flows. This new standard, which Habitat is not required to adopt until its year ending June 30, 2019, requires improved presentation and disclosures to help not-for-profits provide more relevant information about their resources (and the changes in those resources) to donors, grantors, creditors, and other users. This ASU completes the first phase of a two phase project to amend not-for-profit financial reporting requirements.

Habitat is presently evaluating the effects that these ASUs will have on its future financial statements, including related disclosures.