

**HABITAT FOR HUMANITY IN THE
ROANOKE VALLEY, INC.**

FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION

YEARS ENDED JUNE 30, 2015 AND 2014

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INDEPENDENT AUDITORS' REPORT

Calculated solutions.

To the Board of Trustees of
Habitat for Humanity in the Roanoke Valley, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity in the Roanoke Valley, Inc., (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, 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.

Auditors' 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 the standards applicable to financial audits contained in *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 qualified audit opinion.

Basis for Qualified Opinion

As explained in Note 3 to the financial statements, donated inventory is not consistently recorded in the financial statements. In our opinion, U.S. generally accepted accounting principles require that such inventory be recorded at its fair value at the date of receipt. It was not practicable to determine the effects of the unrecorded inventory on the financial statements.

Qualified Opinion

In our opinion, except for the effects of not recording inventory as disclosed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of Habitat for Humanity in the Roanoke Valley, Inc. as of June 30, 2015 and 2014, 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.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 1, 2016, on our consideration of Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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* in considering Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over financial reporting and compliance.

Jodi, Alynn, Louisa & Company, P. C.

Roanoke, Virginia
February 1, 2016

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 104,532	\$ 158,749
Current portion of mortgage receivables (Net of unamortized discount of \$14,891 and \$14,069)	345,250	323,334
Grant and other receivables	164,014	82,824
Construction-in-progress and vacant lots	957,462	1,138,144
Building supplies	<u>67,261</u>	<u>29,561</u>
Total current assets	<u>1,638,519</u>	<u>1,732,612</u>
PROPERTY AND EQUIPMENT:		
Land	111,100	111,100
Building	774,634	774,634
Office equipment and furniture	47,417	47,417
Vehicles	<u>105,120</u>	<u>105,120</u>
	1,038,271	1,038,271
Less accumulated depreciation	<u>(525,455)</u>	<u>(475,291)</u>
Net property and equipment	<u>512,816</u>	<u>562,980</u>
OTHER ASSETS -		
Mortgage receivables - noncurrent (net of unamortized discount of \$3,356,044 and \$3,125,436)	<u>2,125,291</u>	<u>1,954,838</u>
Total assets	<u>\$ 4,276,626</u>	<u>\$ 4,250,430</u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2015</u>	<u>2014</u>
CURRENT LIABILITIES:		
Notes payable to VHDA	\$ 71,838	\$ 69,718
Line of credit	70,004	-
Accounts payable	54,450	73,204
Accrued payroll and withholdings	11,227	28,268
Other	15,017	6,955
Deposits, net	<u>31,690</u>	<u>17,181</u>
Total current liabilities	254,226	195,326
LONG TERM DEBT:		
Note payable to VHDA	<u>402,856</u>	<u>475,225</u>
Total liabilities	<u>657,082</u>	<u>670,551</u>
NET ASSETS:		
Unrestricted	3,593,494	3,578,779
Temporarily restricted	<u>26,050</u>	<u>1,100</u>
Total net assets	<u>3,619,544</u>	<u>3,579,879</u>
Total liabilities and net assets	<u>\$ 4,276,626</u>	<u>\$ 4,250,430</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CHANGES IN UNRESTRICTED NET ASSETS:		
Support and Revenue:		
Contributions	\$ 430,500	\$ 389,308
Contributed land and buildings	35,200	-
Special events	7,388	14,188
Grants	769,949	614,312
Contributed materials and services	131,719	58,775
Sale of land and houses, (net of discount on mortgages of \$437,309 and \$401,395)	379,357	281,754
Interest	108	597
Late fees and miscellaneous	18,738	17,470
Mortgage discount amortization	205,879	255,647
Habitat Store receipts	546,825	479,862
Loss on disposal of vehicle and property	-	(41,466)
Net assets released from restrictions	-	9,000
	<u>2,525,663</u>	<u>2,079,447</u>
Total unrestricted support and revenue		
Expenses:		
Program	2,241,729	1,913,017
Management and general	162,413	125,628
Fundraising and promotion	106,806	112,907
	<u>2,510,948</u>	<u>2,151,552</u>
Total expenses		
Change in unrestricted net assets	<u>14,715</u>	<u>(72,105)</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	24,950	1,100
Net assets released from restrictions	-	(9,000)
	<u>24,950</u>	<u>(7,900)</u>
Change in temporarily restricted net assets		
Change in net assets	39,665	(80,005)
Net assets - beginning of year	<u>3,579,879</u>	<u>3,659,884</u>
Net assets - end of year	<u>\$ 3,619,544</u>	<u>\$ 3,579,879</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 39,665	\$ (80,005)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Assets received as non-cash contributions	(35,200)	-
Depreciation	50,163	50,856
Amortization of discount on mortgages	(205,879)	(255,647)
Issuance of mortgages net of discount	(373,654)	(270,317)
Loss on disposal of vehicle and property	-	41,466
Change in certain operating assets and liabilities:		
Collections on mortgages receivable made	387,164	472,516
Grants and other receivables	(81,190)	17,735
Construction in progress and vacant lots	215,882	(162,574)
Building supplies	(37,700)	2,713
Accounts payable	(18,753)	51,072
Accrued expense and other liabilities	<u>5,530</u>	<u>28,249</u>
Net cash from operating activities	<u>(53,972)</u>	<u>(103,936)</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Proceeds from redemption of certificate of deposits	-	76,506
Proceeds from sale of vehicle and property	-	39,700
Purchases of land, buildings and equipment	<u>-</u>	<u>(6,507)</u>
Net cash from investing activities	<u>-</u>	<u>109,699</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debt	(70,249)	(67,684)
Net proceeds from line of credit	<u>70,004</u>	<u>-</u>
Net cash from financing activities	<u>(245)</u>	<u>(67,684)</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF CASH FLOWS - (Continued)

YEARS ENDED JUNE 30, 2015 and 2014

	<u>2015</u>	<u>2014</u>
Change in cash and cash equivalents	\$ (54,217)	\$ (61,921)
Cash and cash equivalents - Beginning of year	<u>158,749</u>	<u>220,670</u>
Cash and cash equivalents - End of year	<u>\$ 104,532</u>	<u>\$ 158,749</u>
Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 15,393	\$ 17,456

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2015 and 2014

	2015			
	Program	Management and General	Fundraising and Promotion	Total
EXPENSES:				
Cost of houses sold	\$ 1,343,057	\$ -	\$ -	\$ 1,343,057
Wages	295,645	80,790	63,964	440,399
Payroll taxes	22,812	6,234	4,935	33,981
Other employee benefits	57,228	16,273	8,067	81,568
Office utilities and maintenance	6,488	6,486	6,487	19,461
Office supplies	3,581	3,581	3,581	10,743
Depreciation	34,269	9,519	3,808	47,596
Insurance	28,727	2,498	-	31,225
Interest	10,775	4,618	-	15,393
Building lot expenses	5,785	-	-	5,785
Vehicles	10,863	-	-	10,863
Professional fees	19,326	9,258	2,315	30,899
Meetings and conferences	2,020	2,020	2,020	6,060
Printing and publications	8,144	2,714	2,714	13,572
Postage	953	572	381	1,906
Telephone	3,554	1,777	1,777	7,108
Tithe	7,000	-	-	7,000
Volunteer and Selection Committee	12,274	-	-	12,274
Miscellaneous	16,073	16,073	6,757	38,903
Habitat Store	353,155	-	-	353,155
 Total expenses	 <u>\$ 2,241,729</u>	 <u>\$ 162,413</u>	 <u>\$ 106,806</u>	 <u>\$ 2,510,948</u>

See accompanying notes to financial statements.

2014

<u>Program</u>	<u>Management and General</u>	<u>Fundraising and Promotion</u>	<u>Total</u>
\$ 994,502	\$ -	\$ -	\$ 994,502
305,971	64,969	57,051	427,991
23,482	4,986	4,379	32,847
53,030	10,889	8,339	72,258
7,631	7,628	7,628	22,887
4,242	4,240	4,240	12,722
34,601	9,611	3,844	48,056
32,657	2,840	-	35,497
10,474	3,491	3,491	17,456
6,735	-	-	6,735
15,882	-	-	15,882
20,165	8,400	2,100	30,665
1,414	1,415	1,415	4,244
1,496	1,496	4,488	7,480
815	204	1,019	2,038
3,666	1,833	1,833	7,332
10,000	-	-	10,000
14,534	-	-	14,534
3,626	3,626	13,080	20,332
<u>368,094</u>	<u>-</u>	<u>-</u>	<u>368,094</u>
<u>\$ 1,913,017</u>	<u>\$ 125,628</u>	<u>\$ 112,907</u>	<u>\$ 2,151,552</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

1. CREATION AND PURPOSE OF ORGANIZATION:

Habitat for Humanity in the Roanoke Valley, Inc. (the Organization) was formed as a non-profit Christian housing ministry for the specific purpose of enabling low income families to obtain modest and decent housing in the Roanoke Valley. To that end, houses are built keeping costs as low as possible by using volunteer labor and donated land and materials whenever possible. Completed homes are then generally sold at cost plus a value for donated professional services, skilled labor and materials to selected families. A small down payment is required, and the Organization finances the remainder of the sale price with non-interest bearing loans to be repaid over a 15-35 year period. Loan repayments are reinvested in other home building projects. The Organization retains a first lien on the properties sold.

Habitat for Humanity also operates a retail store (“Restore”) where donated new and used construction and home renovation products are sold to the public at deeply discounted prices. All proceeds from the Restore are directed towards the Organization’s affordable housing program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board’s discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Use of Estimates - The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent 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.

Significant estimates used in preparing these financial statements include those assumed in computing discounts on mortgages receivable. It is at least reasonably possible that the significant estimate will change within the next year.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Provision for Income Taxes - The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income tax provision has been recorded.

The Organization believes that it has appropriate support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements. Should any such penalties and interest be incurred, the Organization's policy would be to recognize them as management and general expenses. With limited exceptions, the Organization is no longer subject to income tax examinations for any years earlier than 2011 for federal purposes.

Cash Equivalents - For the purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Mortgage Receivables - Balances represent the amount charged to the homeowners for houses built and secured by real estate that are to be paid back over a mutually established period of time. These mortgages are typically paid back on a monthly basis. The mortgages provide for no interest, the balance sheet amounts for mortgage receivables have been discounted using an imputed rate of interest determined as of the origination date to estimate fair market value. Such discounts are amortized over the term of the related mortgage.

The Organization uses the direct writeoff method in providing for bad debts. Receivables are stated at the amount management expects to collect from balances at year end. Management estimates that no material losses will be sustained relating to the collectibility of mortgages. As such, no allowance for loan losses or adjustment to the balance of mortgages receivable has been recorded, based on current facts and circumstances.

Grants Receivable and Unconditional Promised to Give - Grants receivable and unconditional promised to give are recorded as revenue and a receivable when the promise is made. Unconditional promises to give that are due in the next year are reflected as current promises to give and are recorded at their net realizable value. Unconditional promises to give that are due in subsequent years are reflected as long-term promises to give and are recorded at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are expected to be collected. Determination of the risk-free rate includes consideration of the risk of uncollectibility.

Habitat for Humanity also receives funding from the Department of Housing and Urban Development as a Subrecipient of the City of Roanoke that supplements its traditional funding sources. The Organization recognizes the award as revenue as the expenses stipulated in the grant agreement have been incurred.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Construction in Progress - Construction in progress is valued at cost using the specific identification method. Gifts in kind are recorded at the fair value on the date it is used in construction of the house based upon the specific identification method. Provisions for estimated losses on construction in progress are made in the period in which such losses are determined.

Building Supplies - Consist of materials on hand for use in building of houses, purchased supplies are stated at lower of cost or market using the specific identification method.

Property and Equipment - Property and equipment is recorded at cost or, if donated, at estimated fair value at date of donation. Purchased assets, with a cost exceeding \$1,500 are generally capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets.

Donated Materials and Land - If significant in amount, donated materials are recorded at fair market value where objectively measurable. Donated land is recorded at appraised value or locality assessed value for property tax purposes which approximates fair market value, using Level 2 inputs.

Fair Value Measurements - Assets and liabilities are measured at fair value which is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or liability. As a basis for considering such assumptions, standards establish a three-tier value hierarchy, which prioritizes the inputs used in measuring fair value as follows: Level 1 inputs consist of unadjusted quoted prices in active markets for identical assets and have the highest priority, Level 2 inputs, other than the quoted prices in active markets, are observable either directly or indirectly, and Level 3 unobservable inputs in which there is little or no market data, which requires the Organization to develop its own assumptions. The Organization uses appropriate valuation techniques based on the available inputs to measure the fair value of its investments. When available, the Organization measures fair value using Level 1 inputs because they generally provide the most reliable evidence of fair value.

A financial instrument's categorization within the valuation hierarchy is based upon the lowest level of input that is significant to the fair value measurement.

Restricted and Unrestricted Support and Revenue - Contributions and grants received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

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. All other donor - restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

Donated Services - The Organization receives significant amounts of volunteer labor in building its houses. However, the Organization does not record the value of these services since it is not objectively measurable.

Revenue and Cost Recognition - The Organization recognizes revenue from all homebuilding activities at the closing of the sale using the deposit method. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized, and all customer deposits are treated as liabilities. Capitalized costs are charged to earnings upon closing. Costs incurred in connection with completed homes and selling, general, and administrative costs are charged to expense as incurred. Provision for estimated losses on uncompleted contracts and on speculative projects is made in the period in which such losses are determined.

Contract costs include all direct materials, labor costs and those indirect costs related to contract performance, such as indirect labor, supplies, tools, and repairs. General and administrative costs are charged to expense as incurred. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are determined. Accrued losses of \$-0- were recognized on construction in progress and are included in other accrued liabilities at June 30, 2015 and 2014.

Expense Allocation - The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain management and general costs have been allocated to program services and fundraising.

Reclassifications - Certain amounts from the prior year have been reclassified to conform with current year presentation.

3. GENERALLY ACCEPTED ACCOUNTING PRINCIPLES DEPARTURE:

The Organization does not record inventory for purchases or donations of items for the Restore. The Organization is following Habitat for Humanity International policies and procedures. However, amounts of inventory material to the financial statements may exist as of June 30, 2015 and 2014.

4. CASH AND CASH EQUIVALENTS:

The Organization maintains cash balances at several banks. Amounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

5. GRANTS AND PLEDGES RECEIVABLE:

Grants and pledges receivable anticipated to be collected within one year consisted of the following at June 30:

	<u>2015</u>	<u>2014</u>
Unrestricted	\$ 137,964	\$ 81,724
Temporarily restricted	<u>26,050</u>	<u>1,100</u>
Total grants and pledges receivable	<u>\$ 164,014</u>	<u>\$ 82,824</u>

Management believes that these receivables are fully collectable, therefore, no allowance for doubtful accounts is necessary.

6. MORTGAGE DISCOUNT AMORTIZATION:

Habitat for Humanity gives interest free mortgages to its buyers. For the purpose of the statements, the Organization uses the discount rate from Habitat International to estimate its annual mortgage discount amortization. The rates range from 7.39% to 9.0%. The amortization income was \$205,879 and \$255,647 for the years 2015 and 2014, respectively.

7. LONG-TERM DEBT:

The Organization's long-term debt consists of the following:

	<u>2015</u>	<u>2014</u>
Notes payable to Virginia Housing Development Authority, payable in monthly installments of \$7,092 including interest at 3%, secured by mortgages receivable	\$ 474,694	\$ 544,943
Less current maturities	<u>71,838</u>	<u>69,718</u>
Long-term portion	<u>\$ 402,856</u>	<u>\$ 475,225</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

7. LONG-TERM DEBT - (Continued):

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

Years ended June 30,		
2016	\$	71,838
2017		74,024
2018		76,025
2019		78,595
2020		44,934
Thereafter		<u>129,278</u>
	\$	<u><u>474,694</u></u>

The Organization has a secured line of credit with Branch Banking and Trust Company with \$250,000 in available funds at the prime rate of interest plus 0.50%. On July 30, 2015, the line of credit was extended on year and now matures with all outstanding principal due on July 6, 2016. The line of credit is secured by the receivables of the Organization. There is an outstanding balance of \$70,004 on the line of credit as of June 30, 2015.

8. FAIR VALUE MEASUREMENT:

The following table sets forth by level within the Fair Value hierarchy the Organization's assets and liabilities measured on a recurring basis at June 30:

<u>June 30, 2015</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Total</u>
Donated land	\$ <u>-</u>	\$ <u>214,104</u>	\$ <u>214,104</u>
<u>June 30, 2014</u>	<u>Level 1 Inputs</u>	<u>Level 2 Inputs</u>	<u>Total</u>
Donated land	\$ <u>-</u>	\$ <u>283,804</u>	\$ <u>283,804</u>

9. TEMPORARILY RESTRICTED NET ASSETS:

Temporarily restricted net assets are composed of the following at June 30.

	<u>2015</u>	<u>2014</u>
Time restricted	\$ 1,100	\$ 1,100
Purpose restricted	<u>24,950</u>	<u>-</u>
	<u>\$ 26,050</u>	<u>\$ 1,100</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

10. NET ASSETS RELEASE FROM RESTRICTIONS:

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes or by the passage of time as follows:

	<u>2015</u>	<u>2014</u>
Release of time restriction	<u>\$ 1,100</u>	<u>\$ 9,000</u>

11. GRANT REVENUES:

For the years ended June 30, the Organization received grant monies or pledges as follows:

	<u>2015</u>	<u>2014</u>
City of Roanoke:		
West End	\$ 641,723	\$ 614,312
MOTA	128,226	-
Roanoke County	<u>-</u>	<u>1,100</u>
	<u>\$ 769,949</u>	<u>\$ 615,412</u>

Habitat for Humanity's federal programs administered by the City of Roanoke are subject to financial and compliance audits by grantor agencies, which, if instances of material noncompliance are found, may result in disallowed expenditures and affect the Organization's continued participation in specific programs. The amount, if any, of expenditures which may be disallowed by the grantor agencies cannot be determined at this time, although the Organization expects such amounts, if any, to be immaterial.

The Organization has responsibility for expending grant funds in accordance with specified instructions from its funding sources. Any deficits resulting from over expenditures and/or questioned costs are the responsibility of the Organization.

Any unexpended grant funds at the end of the grant period may be refundable or carried over to the following period at the discretion of the funding sources. Notwithstanding the audits by independent certified public accountants, all costs included in this report remain subject to audit by the agencies providing financial support within the limits of the Single Audit Act of 1996, as amended. The determination as to whether costs will be allowable or unallowable under the grants will be made by representatives of the funding sources having authority to make and enforce contracts.

12. DEFINED CONTRIBUTION PLAN:

The Organization has a 403(b) plan which covers all employees. Participants may make elective deferrals of their compensation. The Organization matches 100% of participant deferrals, not to exceed 3% of the participants annual salary. Contributions to the Plan amounted to \$16,338 and \$16,688 for the year ended June 30, 2015 and 2014, respectively.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

13. AFFILIATE TRANSACTIONS:

Habitat for Humanity is a global partnership. In recognition of this partnership, the Organization is expected to contribute 10% of actual contributions not designated for local work to Habitat for Humanity International, Inc., the central organization with which they are affiliated. These funds are to be used to further housing in undeveloped countries. Total tithe contributions paid were \$7,000 and \$10,000 for the years ended June 30, 2015 and 2014.

Affiliates are also required to pay to Habitat for Humanity International Inc., a U.S. Stewardship and Organizational Sustainability Initiative. The fee is based on the affiliate's Geographic Service Area. There is a phase in period for implementation of the fee. The Organization paid fees of \$10,000 and \$2,500 for the years ended June 30, 2015 and 2014.

14. COMMITMENTS AND CONTINGENCIES:

Program Funding

Continuing program funding is contingent upon availability of funds from federal, state and local sources and project performance. The funds are generally awarded on an annual basis upon the acceptance of a budget estimate for the current year or approval of a program re-application. Approximately 30% of the Organization's funding was provided by grants from the U.S. Department of Housing and Urban Development through the City of Roanoke as a subrecipient, at June 30, 2015 and 2014, respectively.

15. SUBSEQUENT EVENT:

On December 8, 2015, the Organization executed a contract to purchase a new building for its operations in Roanoke, VA at a purchase price of \$800,000. The purchase is contingent on the sale of the current property, rezoning of the new property, and renovation costs. On January 11, 2016, the Organization executed a contract to sell its current building located at 403 Salem Avenue for \$1,946,000. The purchase and sale are expected to close in late May or early June 2016.

The Organization has evaluated all subsequent events through February 1, 2016, the date the financial statements were available to be issued.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

<u>Federal Grantor/Pass-through Grantor/Program Title</u>	<u>Federal CFDA Number</u>	<u>Federal Expenditures</u>
Department of Housing and Urban Development Pass Through Programs:		
City of Roanoke, Virginia Programs:		
Community Services Block Grant (CDBG)	14.218	\$ 407,108
Home Investment Partnerships (HOME)	14.239	<u>362,839</u>
Subtotal City of Roanoke Programs		<u>769,947</u>
Total expenditures of federal awards		<u>\$ 769,947</u>

See accompanying notes to schedule of expenditures of federal awards.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

FOR THE YEAR ENDED JUNE 30, 2015

1. BASIS OF PRESENTATION

This schedule of federal awards includes the federal grant activity of Habitat for Humanity in the Roanoke Valley, Inc. under programs of the federal government for the year ended June 30, 2015. The information in this Schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Because the Schedule presents only a selected portion of the operations of Habitat for Humanity in the Roanoke Valley, Inc. it is not intended to and does not present the financial position, changes in net assets or cash flows of Habitat for Humanity in the Roanoke Valley, Inc.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Expenditures reported on this Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following cost principles contained in OMB Circular A-122, *Cost Principles for Non-Profit Organizations*, where certain types of expenditures are not allowable or are limited as to reimbursement.

Pass-through entity identifying number are presented where available.

3. FEDERAL CATALOG OF FEDERAL DOMESTIC ASSISTANCE (CFDA) NUMBERS:

The CFDA numbers included in this report were determined based on the program name, review of grant contract information, and the Office of Management and Budget's Catalog of Federal Domestic Assistance.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

YEAR ENDED JUNE 30, 2015

Finding No. 2014-2: Home Investment Partnerships (HOME), CFDA 14.239

Condition: One invoice did not have evidence of approval.

Cause: The invoice was approved verbally, but the conversation was not documented.

Recommendation: We recommend the Organization document all instances of verbal approval.

Current status: The recommendation was adopted and no similar findings were noted in 2015 audit.

Finding No. 2014-3: Home Investment Partnerships (HOME), CFDA 14.239

Condition: Two invoices were submitted for full invoice cost instead of net of discounts for timely payment.

Recommendation: We recommend the Organization record all costs net of cash discounts for early or timely payment.

Current status: The recommendation was adopted and no similar findings were noted in 2015 audit.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2015

A. SUMMARY OF AUDIT RESULTS

1. The auditors' report expresses a qualified opinion on the financial statements of Habitat for Humanity in the Roanoke Valley, Inc. due to inventory at the Habitat Restore not being recorded.
2. One material weakness was identified relating to the audit of financial statements performed in accordance with *Government Auditing Standards*. See Finding No. 2015-1 below for details. The audit of the financial statement in accordance with *Government Auditing Standards* had none reported significant deficiencies.
3. No instances of noncompliance material to the financial statements of Habitat for Humanity in the Roanoke Valley, Inc. were disclosed during the audit.
4. No material weaknesses were identified during the audit of the major federal award programs performed in accordance with OMB Circular A-133. The audit of the major federal award programs performed in accordance with OMB Circular A-133 had none reported significant deficiencies.
5. The auditors' report on compliance for the major federal award programs expresses an unmodified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 510(a) of OMB A-133 are reported in this Schedule.
7. The programs tested as a major programs were: 14.239 Home Investment Partnerships Program and 14.218 Community Services Block Grant
8. The threshold for distinguishing Types A and B programs was \$300,000.
9. Habitat for Humanity in the Roanoke Valley, Inc. was determined to not qualify as a low-risk auditee.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - (Continued)

YEAR ENDED JUNE 30, 2015

B. FINDINGS - FINANCIAL STATEMENTS AUDIT

MATERIAL WEAKNESSES:

Finding No. 2015-1: Internal control related matters related to inventory tracking. The Habitat ReStore maintains considerable amounts of donated materials and supplies for sale to the public, for which an inventory is not tracked or counted. The lack of tracking of inventory increases the possibility of theft occurring and going unnoticed. While inventory is not recorded on the financial statements, theft could effect store revenue in amounts material to the financial statements. This is a repeat finding as management believes given the nature of the inventory items that costs exceed the benefits derived from implementing the recommendation.

Recommendation: We recommend inventory item counts be taken periodically. The tracking of inventory items could provide indications of potential theft occurring. In addition, the tracking of inventory could provide management with information on what items are sold more frequently and should be sought out for donations as well as identify slow moving or obsolete items that should be sold at deeper discounts or thrown away.

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAM AUDITS

NONE

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

CORRECTIVE ACTION PLAN

YEAR ENDED JUNE 30, 2015

Department of Housing and Urban Development:

Habitat for Humanity in the Roanoke Valley, Inc. respectfully submits the following corrective action plan for the year ended June 30, 2015.

Foti, Flynn, Lowen & Co., Roanoke, Virginia Audit period: Year ending June 30, 2015

The findings from the June 30, 2015 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule.

FINDINGS- FINANCIAL STATEMENT AUDIT - Material Weaknesses

Finding No. 2015-1: The Habitat ReStore does not have a formal inventory tracking system or conduct periodic counting of inventories.

Recommendation: The Habitat ReStore should implement an inventory tracking system or conduct periodic physical inventory.

Action Taken: The Organization believes given the nature of the inventory items that costs exceed the benefits that could be derived by implementing the recommendation.

If the Department of Housing and Urban Development has questions regarding this plan, please call Karen Mason, Executive Director, at (540) 344-0747.

Sincerely yours,

Karen Mason
Executive Director

Calculated solutions.

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 Trustees of
Habitat for Humanity in the Roanoke Valley, Inc.

We have audited, in accordance with the 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 in the Roanoke Valley, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements, and have issued our report thereon dated February 1, 2016.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity in the Roanoke Valley, Inc.'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 preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings and questioned costs that we consider to be a material weakness; see 2015-1.

A firm of CPAs and Financial Consultants

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity in the Roanoke Valley, Inc.'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*.

Habitat for Humanity in the Roanoke Valley, Inc.'s Response to Findings

Habitat for Humanity in the Roanoke Valley, Inc.'s response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Habitat for Humanity in the Roanoke Valley, Inc.'s response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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.

Foti, Flynn, Lauen & Company, P. C.

Roanoke, Virginia
February 1, 2016

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE REQUIRED BY OMB CIRCULAR A-133**

To the Board of Trustees of
Habitat for Humanity in the Roanoke Valley, Inc.

Report on Compliance for Each Major Federal Program

We have audited Habitat for Humanity in the Roanoke Valley, Inc.'s compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect of Habitat for Humanity in the Roanoke Valley, Inc.'s major federal programs for the year ended June 30, 2015. Habitat for Humanity in the Roanoke Valley, Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for each of Habitat for Humanity in the Roanoke Valley, Inc.'s major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity in the Roanoke Valley, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat for Humanity in the Roanoke Valley, Inc.'s compliance.

Opinion on Each Major Federal Program

In our opinion, Habitat for Humanity in the Roanoke Valley, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2015.

Report on Internal Control Over Compliance

Management of Habitat for Humanity in the Roanoke Valley, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity in the Roanoke Valley, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Foti, Flynn, Louew & Company, P. C.

Roanoke, Virginia
February 1, 2016