

**HABITAT FOR HUMANITY OF
DENTON COUNTY, INC.**

FINANCIAL STATEMENTS

June 30, 2014 and 2013

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.

FINANCIAL STATEMENTS

TABLE OF CONTENTS

	PAGE(S)
Independent Auditor's Report	1-2
Statements of Financial Position June 30, 2014 and 2013	3
Statement of Activities for the Year Ended June 30, 2014	4
Statement of Activities for the Year Ended June 30, 2013	5
Statements of Cash Flows for the Years Ended June 30, 2014 and 2013	6-7
Statement of Functional Expenses for the Year Ended June 30, 2014	8
Statement of Functional Expenses for the Year Ended June 30, 2013	9
Notes to the Financial Statements	10-22

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Denton County, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Denton County, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, cash flows and functional expenses for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Denton County, Inc. as of June 30, 2014, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

A handwritten signature in cursive script that reads "P. Charon, CPA, PLLC". The signature is written in dark ink and is positioned above the printed name.

Philip T Charon, CPA, PLLC
Colleyville, Texas

November 6, 2014

Habitat for Humanity of Denton County, Inc.
Statements of Financial Position
June 30, 2014 and 2013

ASSETS

	2014	2013
Current Assets		
Cash and Cash Equivalents	\$ 572,753	\$ 544,138
Escrow Cash	54,377	60,155
Accounts Receivable	11,250	-
ReStore Purchased Inventory, at Cost	4,321	6,467
ReStore Donated Inventory, at Fair Value	98,194	62,464
Current Portion of Non-Interest Bearing Mortgages Receivable	209,047	199,863
Prepays	12,899	4,638
Construction in Progress	5,013	69,529
Total Current Assets	<u>967,854</u>	<u>947,254</u>
Property and Equipment		
Property and Equipment, Net of Accumulated Depreciation of \$197,897	630,884	652,887
Other Assets		
Deposits	4,090	4,090
Real Estate Inventory, Land, Site Development and Houses	245,192	158,067
Non-Interest Bearing Long-Term Mortgages Receivable, Net of Discount (Less Current Portion)	<u>1,264,985</u>	<u>1,273,504</u>
Total Other Assets	<u>1,514,267</u>	<u>1,435,661</u>
TOTAL ASSETS	<u><u>\$ 3,113,005</u></u>	<u><u>\$ 3,035,802</u></u>

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 17,036	\$ 6,084
Escrow Payable	54,377	60,155
Accrued Liabilities	3,391	2,509
Deferred Revenues	73,866	75,582
Current Portion of Notes Payable	31,633	30,122
Total Current Liabilities	<u>180,303</u>	<u>174,452</u>
Long-Term Liabilities		
BootStrap Loan Payable (Less Current Portion)	63,000	69,000
Mortgage Payable (Less Current Portion)	<u>329,537</u>	<u>361,087</u>
Total Long-Term Liabilities	<u>392,537</u>	<u>430,087</u>
Total Liabilities	572,840	604,539
Net Assets		
Unrestricted	2,540,165	2,431,263
Temporarily Restricted	-	-
Permanently Restricted	-	-
Total Net Assets	<u>2,540,165</u>	<u>2,431,263</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,113,005</u></u>	<u><u>\$ 3,035,802</u></u>

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Denton County, Inc.
Statement of Activities
For the Year Ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT	Page 1			
Contributions and Grants				
Contributions	\$ 35,665	\$ 211,705	\$ -	\$ 247,370
Direct Public Grants	3,078	-	-	3,078
Ruth's Room Contributions	-	74,553	-	74,553
Sales of Completed Homes	225,433	-	-	225,433
Interest Income	122,729	-	-	122,729
ReStore Revenue	377,575	-	-	377,575
In-Kind Contributions	418,585	-	-	418,585
Late Fee Income	4,426	-	-	4,426
Net Assets Released from Restrictions	286,258	(286,258)	-	-
	<u>1,473,749</u>	<u>-</u>	<u>-</u>	<u>1,473,749</u>
Total Revenue and Public Support				
	1,473,749	-	-	1,473,749
EXPENSES				
Program Services	1,189,631	-	-	1,189,631
Management and General	164,272	-	-	164,272
Fundraising	10,944	-	-	10,944
	<u>1,364,847</u>	<u>-</u>	<u>-</u>	<u>1,364,847</u>
Total Expenses				
	1,364,847	-	-	1,364,847
CHANGE IN NET ASSETS	108,902	-	-	108,902
NET ASSETS AT BEGINNING OF YEAR	2,431,263	-	-	2,431,263
NET ASSETS AT END OF YEAR	<u>\$ 2,540,165</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 2,540,165</u>

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Denton County, Inc.
Statement of Activities
For the Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Contributions and Grants				
Contributions	\$ 36,544	\$ 99,210	\$ -	\$ 135,754
Ruth's Room Contributions	168,201	-	-	168,201
Direct Public Grants	-	-	-	-
Sales of Completed Homes	301,198	-	-	301,198
ReStore Revenue	339,041	-	-	339,041
In-Kind Contributions	412,703	-	-	412,703
Interest and Late Fee Income	123,149	-	-	123,149
Net Assets Released from Restrictions	134,270	(134,270)	-	-
	<u>1,515,106</u>	<u>(35,060)</u>	<u>-</u>	<u>1,480,046</u>
Total Revenue and Public Support				
EXPENSES				
Program Services	1,239,531	-	-	1,239,531
Management and General	147,133	-	-	147,133
Fundraising	4,284	-	-	4,284
	<u>1,390,948</u>	<u>-</u>	<u>-</u>	<u>1,390,948</u>
Total Expenses				
CHANGE IN NET ASSETS	124,158	(35,060)	-	89,098
NET ASSETS AT BEGINNING OF YEAR	<u>2,307,105</u>	<u>35,060</u>	<u>0</u>	<u>2,342,165</u>
NET ASSETS AT END OF YEAR	<u><u>\$ 2,431,263</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 2,431,263</u></u>

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Denton County, Inc.
Statement of Cash Flows
For the Years Ended June 30, 2014 and 2013

CASH FLOWS FROM OPERATING ACTIVITIES

	2014	2013
Change in Net Assets	\$ 108,902	\$ 89,098
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Transfers to Homeowners in Return for Mortgage Receivables	(225,433)	(301,198)
Depreciation Expense	23,925	23,645
Imputed Interest Income from Non-Interest Bearing Mortgage Loans	(122,729)	(118,346)
Discount on Current Year Non-Interest Bearing Mortgage Loans	121,802	144,309
Donated Vehicle	-	(17,000)
 (Increase) Decrease in Assets:		
Accounts Receivable	(11,250)	475
Prepaid Expenses	(8,261)	(2,017)
Inventory	(33,584)	(17,171)
Construction in Progress	64,516	(386)
Land Held for Homesites	(87,125)	32,816
 Increase (Decrease) in Liabilities:		
Accounts Payable	10,952	(1,492)
Escrow Payable	(5,778)	(9,235)
Accrued Expenses	882	(1,733)
Deferred Revenues	(1,716)	-

CASH USED FOR OPERATING ACTIVITIES

(164,897) (178,235)

CASH FLOWS FROM INVESTING ACTIVITIES

Non-Interest Bearing Mortgage Loan Payments Received	225,695	254,465
Purchase of Property and Equipment	(1,922)	(6,375)

CASH PROVIDED BY INVESTING ACTIVITIES

223,773 248,090

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on BootStrap Loans	(6,000)	(6,000)
Principle payments on Notes Payable	(30,039)	(18,939)

CASH USED FOR FINANCING ACTIVITIES

(36,039) (24,939)

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Denton County, Inc.
Statement of Cash Flows
For the Years Ended June 30, 2014 and 2013

NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	22,837	44,916
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>604,293</u>	<u>559,377</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 627,130</u>	<u>\$ 604,293</u>
SUPPLEMENTAL DISCLOSURES		
Cash Paid During the Year for Interest Expense	<u>\$ 21,210</u>	<u>\$ 30,118</u>
In-Kind Contributions and Contributed Services	<u>\$ 418,585</u>	<u>\$ 412,703</u>
Non-cash Investing and Financing Activities:		
Issuance of Non-Interest Bearing Mortgage Loans	<u>\$ 225,433</u>	<u>\$ 287,198</u>
Discount on Non-Interest Bearing Mortgage Loans	<u>\$ (121,802)</u>	<u>\$ (144,309)</u>
Transfers to Homeowners Subject to Non-Interest Bearing Mortgage Loans	<u>\$ 101,631</u>	<u>\$ 142,889</u>

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Denton County, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2014

	Program Services	Management & General	Fundraising	Total
Salaries	\$ 271,742	\$ 5,339	\$ 3,197	\$ 280,278
Payroll Taxes	19,707	408	244	20,359
Employee Benefits	40,204	-	-	40,204
Contract Labor	7,146	-	-	7,146
Total Salaries and Related Expenses	338,799	5,747	3,441	347,987
Advertising	-	-	7,503	7,503
Bank Charges and Credit Card Fees	4,440	11	-	4,450
Cost of Goods Sold (ReStore)	331,926	-	-	331,926
Cost of Homes Sold	259,077	-	-	259,077
Depreciation	-	23,925	-	23,925
Dues and Subscriptions	-	445	-	445
Equipment Rental	-	6,080	-	6,080
Insurance	-	23,355	-	23,355
Interest Expense	-	21,210	-	21,210
Marketing and Promotions	4,007	-	-	4,007
Mortgage Discounts	121,802	-	-	121,802
Office Supplies	3,915	4,726	-	8,640
Postage and Shipping	-	1,560	-	1,560
Professional Fees	-	37,728	-	37,728
Rent	76,500	-	-	76,500
Repairs and Maintenance	11,445	5,061	-	16,506
Supplies	3,979	889	-	4,867
Telephone	1,941	4,763	-	6,704
Tithe	7,500	-	-	7,500
Travel	8,557	2,480	-	11,036
Utilities	3,153	25,176	-	28,330
Volunteer Appreciation	12,590	-	-	12,590
Website	-	1,116	-	1,116
Total Expenses	<u>\$ 1,189,631</u>	<u>\$ 164,272</u>	<u>\$ 10,944</u>	<u>\$ 1,364,844</u>

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Denton County, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2013

	Program Services	Management & General	Fundraising	Total
Salaries	\$ 245,337	\$ 4,820	\$ 2,886	\$ 253,043
Payroll Taxes	17,834	369	221	18,424
Employee Benefits	13,253	-	-	13,253
Contract Labor	22,581	-	-	22,581
Total Salaries and Related Expenses	299,005	5,189	3,107	307,301
Advertising	-	-	1,177	1,177
Bank Charges and Credit Card Fees	4,777	424	-	5,201
Cost of Goods Sold (ReStore)	318,420	-	-	318,420
Cost of Homes Sold	359,507	-	-	359,507
Depreciation and Amortization	-	23,645	-	23,645
Dues and Subscriptions	-	1,068	-	1,068
Equipment Rental	-	4,495	-	4,495
Insurance	-	12,929	-	12,929
Interest Expense	-	30,118	-	30,118
Marketing and Promotions	3,021	-	-	3,021
Mortgage Discounts	144,309	-	-	144,309
Office Supplies	1,416	10,824	-	12,240
Postage and Shipping	-	1,556	-	1,556
Professional Fees	-	21,600	-	21,600
Rent	75,600	-	-	75,600
Repairs and Maintenance	9,765	4,780	-	14,545
Supplies	2,381	1,626	-	4,007
Telephone	2,731	4,124	-	6,855
Tithe	6,000	-	-	6,000
Travel and Entertainment	6,146	5,201	-	11,347
Utilities	2,633	18,342	-	20,975
Volunteer Appreciation	3,820	-	-	3,820
Website	-	1,212	-	1,212
Total Expenses	<u>\$ 1,239,531</u>	<u>\$ 147,133</u>	<u>\$ 4,284</u>	<u>\$ 1,390,948</u>

* Amounts include In-Kind Contributed Services

The accompanying notes are an integral part of these financial statements.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History and Organization:

Habitat for Humanity of Denton County, Inc. (“Habitat”), is a nonprofit corporation based in Denton, Texas incorporated on August 1, 1994. Habitat is an affiliate of Habitat for Humanity International, Inc. (“International”) a non-denominational Christian non-profit organization whose purpose is to create decent, affordable housing for low-income families, and to make decent shelter a matter of conscience with people everywhere. Although International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat pursues its mission by building and rehabilitating homes using donated supplies, volunteer labor, contributed funds, and properties. The homes are then sold to pre-selected, low-income families at the average estimated cost paid to construct the home. In addition to satisfying eligibility criteria, potential homeowners are required to invest between 350 to 400 hundred hours of their time, “sweat equity”, to volunteer for Habitat and help build the homes. Habitat provides financing for the homes at a rate of zero percent (0%) interest, and at no profit to the organization. Monthly principal payments from families who buy homes from Habitat are added to the pool of resources used to build more homes for more families in need.

Habitat’s ReStore is a store in which building materials, home appliances and supplies are sold to the public. A significant portion of the merchandise is donated to Habitat. A lesser amount of merchandise that is sold is purchased through traditional methods. All ReStore proceeds benefit Habitat.

On January 31, 2004, Habitat entered into an agreement with Ruth’s Room Inc., a resale thrift store, to donate excess floor space and parking located at 1721 Carroll Blvd. to Ruth’s Room Inc. for use as a thrift store. In exchange Ruth’s Room, Inc. agreed to donate the net proceeds from its thrift store operations on a monthly basis to Habitat.

Habitat works in several areas. Briefly described below is the scope of responsibilities:

Housing Development:

Land Acquisition – Cultivating relationships with cities in the County of Denton, Texas to locate and acquire land for affordable home construction.

Construction – On-site building of homes; coordination, training and supervision of all construction site volunteers.

International – Providing for the construction of homes outside the United States. An amount of undesignated funds is donated annually to International for this purpose, as determined by Habitat’s Board of Directors.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 1 – (CONTINUED)

Families and Volunteers:

Homeowner Relations – Qualification and selection of families, training and managing long-term relationships with families.

Volunteer Services – Recruiting, training and scheduling volunteers for all aspects of work; at the construction site, in the office, and on committees.

Significant Accounting Policies:

In fulfilling its responsibility for the preparation of the Habitat's financial statements and disclosures, management selects accounting principles generally accepted in the United States of America and adopts methods for their application. The application of accounting principles requires the estimating, matching and timing of revenue and expense in the determination of support or expenditures. It is also necessary for management to determine, measure and allocate resources and obligations within the financial process according to those principles. Below is a summary of certain significant accounting policies selected by management.

Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Basis of Presentation:

The statement of activities is a statement of the various financial activities and changes in net assets during the current reporting period. It does not purport to represent the results of operations nor of net income or loss for the period since the primary objective of the Habitat is not to achieve a "profit", but to support its mission stated above.

Net Asset Accounting:

As a nonprofit organization, Habitat for Humanity of Denton County, Inc. maintains its records on a fund accounting basis in order to ensure observance of the limitations and restrictions placed on the use of its resources. This is the procedure by which net assets for various purposes are classified for accounting and reporting purposes into self-balancing accounts. Those funds are further classified into net asset groupings in accordance with Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") 605-10 and 958-205, as follows:

Unrestricted net assets – Net assets that are not restricted by donor-imposed stipulations. Unrestricted net assets may include certain funds that the Board of Directors has determined are to be designated for a particular purpose.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 1 – (CONTINUED)

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by the actions of the Organization and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use all or part of the income earned on any related investments for general or specific purposes.

Habitat reports gifts of property and equipment as unrestricted support unless explicit donor restrictions exist that specify how the assets are to be used. Gifts of long-lived assets with explicit restrictions and gifts of cash that must be used to acquire long-lived assets are reported as temporarily restricted support. Habitat reports expirations of donor restrictions when the donated assets are placed in service, unless donor restrictions indicate otherwise. Income from permanently restricted net assets is recorded as unrestricted unless otherwise restricted by the donor.

Statement of Cash Flows:

The statement of cash flows is presented using the “indirect method”. For purposes of this statement, Habitat considers as cash, all cash on hand, cash in checking accounts, money market funds and other similar instruments with maturities of three months or less.

Cash and Cash Equivalents:

Habitat’s financial instruments, none of which is held for trading purposes, consist of cash and cash equivalents. Habitat considers all highly liquid investments that are redeemable in 90 days or less to be cash and cash equivalents.

Property and Equipment:

Property and equipment which are purchased are recorded at historical cost. Donated property and equipment are recorded at their fair value at the date of contribution. Depreciation is recorded using a straight-line approach over 5 to 39 years. Habitat’s capitalization policy is to expense property and equipment purchases less than \$500. Repairs and maintenance are charged to expense as incurred.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 1 – (CONTINUED)

ReStore Inventory:

Inventory is stated at the lower of cost or market, computed on the first-in, first out method. Carry value for purchased items is the actual cost to acquire the item. Cost of the donated items is the fair market value. The fair market value is determined by the selling price for that item. Retail sales are recorded at the point of sale.

Land Held for Development:

Land held for development represents the carrying value of lots owned by Habitat which may be the site of future home construction. The carrying value of land held for development is cost, or if donated, the fair value at the time of the donation. Upon the sale of the home to the homeowner, the land held for development is recognized as cost of homes sold.

Revenue Recognition and Sales:

Homes are sold to qualified buyers at approximately the cost to build the home. Non-interest bearing mortgages are accepted as payment for the homes sold. For the years ended June 30, 2014 and 2013, three and four homes were sold, respectively, by Habitat.

Mortgages Receivable:

Mortgages Receivable consists of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or Habitat may accept back the deed in lieu of foreclosure where homeowner mortgage payments are deemed seriously delinquent. Properties acquired through foreclosure or accepted a deed in lieu of foreclosure may be sold directly on the open market, or refurbished in partnership with and sold to other families in need of decent, affordable housing.

Mortgage notes receivable entered into at rates substantially below market rates are discounted to net present value. The discounts are charged directly to operations at the inception of the mortgage and amortized over the life of the contract. Interest accrued at stated rates and discount amortization is reported as interest income in the period accrued or amortized.

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.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 1 – (CONTINUED)

Escrow Reserves:

Habitat services the mortgages on homes the Organization sells. Included in temporary restricted cash are amounts received by homeowners for insurance and property taxes (escrow funds). These amounts will be used to pay amounts as they become due. A corresponding liability is included in escrow accounts payable in the accompanying statement of financial position. Escrow reserves at June 30, 2014 and 2013 were \$54,377 and \$60,155, respectively.

Contributions:

Contributions, including unconditional promises to give, are recorded at their fair value at the date of receipt. All contributions are available for unrestricted use unless specifically restricted by the donor. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved.

Donated Materials and Services:

Donated services are recognized as contributions in accordance with accounting standards at their estimated fair value if the services (a) create or enhance the Organization's non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Donated materials consist primarily of building materials and supplies for construction and sale in the ReStore. These types of donated materials and services have been recorded in the financial statements. No amounts have been reflected in the financial statements for certain donated volunteer services because they do not meet the criteria for recognition under ASC 605-10, *Accounting for Contributions Received and Contributions Made*. However, a substantial number of volunteers have donated a significant amount of time in Habitat's program services.

Functional Allocation of Expenses:

The costs of providing Habitat's various programs and supporting services have been summarized on a functional basis in the statement of activities. Accordingly, certain expenses have been allocated among the various programs and supporting services benefited.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 1 – (CONTINUED)

Income Taxes:

Habitat for Humanity of Denton County, Inc. is exempt from Federal income taxes under Section 501(c)(3) of the Internal Revenue Code, under a group exemption letter granted to Habitat for Humanity International, Inc. by the Internal Revenue Service, and therefore has made no provision for federal income taxes in the accompanying financial statements. However, Habitat is subject to Federal excise tax and unrelated business income taxes. In addition, Habitat has been determined by the Internal Revenue Service not to be a “private foundation” within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income or known Federal excise taxes for the years ended June 30, 2014 and 2013.

Advertising Costs:

Advertising costs are expensed as incurred. Habitat incurred \$7,503 and \$1,177 in advertising costs for the years ended June 30, 2014 and 2013, respectively.

Fair Value:

Certain assets are reported at estimated “fair value” in accordance with ASC 820-10, *Fair Value Measurements and Disclosures*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

Compensated Absences:

Employees of Habitat receive paid vacation and personal days off, depending on length of service and other factors. It is impractical to estimate the amount of compensation for future absences and accordingly, no liability has been recorded in the accompanying financial statements. Habitat’s policy is to recognize the cost of compensated absences when actually paid to employees.

Use of Estimates and General Assumptions:

The process of preparing financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates and assumptions affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 2 – PROPERTY AND EQUIPMENT

Property and Equipment consists of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 214,023	\$ 214,023
Building	511,677	511,677
Computer Equipment and Software	32,555	30,633
Furniture, Fixtures and Equipment	29,124	29,124
Vehicles	41,402	41,402
Less: Accumulated Depreciation	<u>(197,897)</u>	<u>(173,972)</u>
Total Property and Equipment	<u>630,884</u>	<u>652,887</u>

Depreciation expense was \$23,925 and \$23,645 for the years ended June 30, 2014 and 2013, respectively.

NOTE 3 – REAL ESTATE INVENTORY, LAND, SITE DEVELOPMENT and HOUSES

A summary of activity in real estate inventory for the years ended June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Land	\$ 158,067	\$ 89,035
Houses (due to Forclosures)	<u>-</u>	<u>101,848</u>
Balance at June 30, 2013	158,067	190,883
In-kind Donations	37,361	54,433
Purchases and Additional Cost Incurred	49,764	19,685
Transfers of Land	-	(5,086)
Renovation of Houses	<u>-</u>	<u>(101,848)</u>
Balance at June 30, 2014	<u>\$ 245,192</u>	<u>\$ 158,067</u>

NOTE 4 – MORTGAGE NOTES RECEIVABLE

A home is considered sold when a formal closing transaction has been finalized. Homes are sold for a price that approximates the cost to construct.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 4 – MORTGAGE NOTES RECEIVABLE (CONTINUED)

Habitat holds 84 and 81 mortgage notes receivable with maturity dates ranging from 15 to 30 years as of June 30, 2014 and 2013. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. The payments collected on these notes are to help fund future home construction. The notes have been discounted at various rates ranging from 7.50% to 9.00% using the effective interest method over the lives of the mortgages. Mortgages are reported net of amortized cost.

Payments due on mortgage notes receivable are as follows:

<u>Year Ending June 30,</u>	
2015	\$ 209,047
2016	209,047
2017	209,047
2018	209,047
2019	209,047
Thereafter	<u>1,487,554</u>
Notes Receivable at Face Value	2,532,789
Less: Unamortized Discount	<u>(1,058,757)</u>
Net Present Value of Mortgages	1,474,032
Less: Current Portion	<u>(209,047)</u>
Long-term Portion	<u><u>\$ 1,264,985</u></u>

NOTE 5 –TDHCA “BOOTSTRAP” LOAN PROGRAM

The Texas Department of Housing and Community Affairs (TDHCA) “Bootstrap” Loan Program provides no-interest home mortgage loans up to \$45,000 to low income Texas families who agree to help build their own home and who are working through certified nonprofit organizations such as Habitat. This program uses funds administered through the State of Texas Housing Trust Fund. TDHCA has appointed Habitat as a servicer for “Bootstrap” loans. As a servicer, Habitat collects payments from the borrowers and remits to TDHCA. As of June 30, 2014 and 2013, Habitat was servicing four loans issued by TDHCA, with a total outstanding balance of \$63,000 and \$69,000, respectively.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 6 – NOTES PAYABLE

The original promissory note to First State Bank in the amount of \$530,000 with a balance of \$361,170 and \$391,209 on June 30 2014 and 2013, respectively, was modified effective June 1, 2013. The unpaid principal amount and interest is payable in monthly installments in the amount of \$4,271 with an interest rate of 5.625% and a maturity date of June 1, 2023. The note is secured by the land and building at 1721 Carroll Blvd.

The following is a schedule of debt maturities as of June 30, 2014:

Year Ended June 30,	Amount
2015	\$ 31,633
2016	33,524
2017	35,507
2018	37,559
2019	39,755
Beyond	183,192
	<u>\$ 361,170</u>

Interest expense for the years ended June 30, 2014 and 2013 was \$21,210 and \$30,118, respectively.

NOTE 7 – TEMPORARILY RESTRICTED NET ASSETS

There were no temporarily restricted net assets as of June 30, 2014.

NOTE 8 – PERMANENTLY RESTRICTED NET ASSETS

There were no permanently restricted net assets as of June 30, 2014.

NOTE 9 – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purpose of building homes specified by donors during the year ending June 30, 2014.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 10 – DISCLOSURES ABOUT UNCERTAINTY IN INCOME TAXES

Habitat files an annual information return and has adopted the provisions of ASC 740, *Accounting for Uncertainty in Income Taxes* and has not identified any uncertain tax positions. Habitat's Form 990, *Return of Organization Exempt from Income Tax*, for the fiscal years ending 2014, 2013, and 2012 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 11 – IN-KIND CONTRIBUTIONS

Habitat receives granted land, building materials, supplies, and general contractor services at various times throughout the year for use in both its new construction housing projects and for resale through the ReStore. The estimated values of such in-kind transactions are reflected in the statement of activities at their fair value and are recorded at the time of receipt and consist of the following for the years ended June 30, 2014 and 2013, respectively:

	2014	2013
Construction Materials	\$ 28,389	\$ 12,800
ReStore Building Materials & Supplies	350,835	\$325,970
Professional Services	2,000	\$ 2,500
Vehicle	-	\$ 17,000
Land	37,361	54,433
	<u>\$418,585</u>	<u>\$412,703</u>

NOTE 12 – CONCENTRATIONS

Habitat received 23% and 55% of contributions for the years ended June 30, 2014 and 2013, respectively, from one donor. The loss of this donor would have a significant negative impact on Habitat.

NOTE 13 – RELATED PARTY TRANSACTION

During the years ended June 30, 2014 and 2013, Habitat paid tithes to International of \$7,500 and \$6,000 respectively.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 14 – CASH BALANCE IN EXCESS OF FDIC LIMIT

At various times during the fiscal year, Habitat's cash in bank balances exceeded the federally insured limits. At June 30, 2014 and 2013, Habitat's uninsured cash balances totaled approximately \$170,876 and \$261,600, respectively. Management does not believe it is exposed to significant credit risk.

NOTE 15– COMMITMENTS AND CONTINGENCIES

Habitat leases retail space for Habitat's ReStore under the terms of an operating lease. The lease was entered into November 1, 2010 and continues to October 31, 2015. The lease has options to extend the lease for two additional periods of five years each. The lease requires monthly payments of \$6,150 for the period ended October 31, 2012 and increased to \$6,375 for the period ending October 31, 2015. Lease expense related to retail space for the years ended June 30, 2014 and 2013 was \$76,500 and \$75,600, respectively.

Habitat leases a copier under an operating lease agreement. The operating lease agreement requires monthly payments of \$399 and expires September 30, 2017. Lease expense related to office equipment for the years ended June 30, 2014 and 2013 was \$6,080 and \$4,495, respectively.

Future minimum lease payments required under these leases at June 30, 2014 are as follows:

Year Ended June 30,	Amount
2015	\$ 81,288
2016	30,288
2017	4,788
2018	798
2019	-
	<u>\$ 117,162</u>

NOTE 16 – SUBSEQUENT EVENTS

An evaluation of subsequent events was performed in accordance with ASC 855-10, *Subsequent Events*, through November 6, 2014 which is the date of the report. No material subsequent events were noted.

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Certain assets are reported at estimated “fair value” in accordance with ASC 820-10, *Fair Value Measurements and Disclosures*. Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability (i.e., the “exit price”) in an orderly transaction between market participants at the measurement date.

Financial instrument valuation techniques are based on observable and unobservable inputs. Observable inputs reflect readily obtainable data from independent sources, while unobservable inputs reflect market assumptions. The standard classifies these inputs into the following hierarchy:

Level 1 Inputs – Quoted prices for identical instruments in active markets.

Level 2 Inputs – Quoted prices for similar instruments in active markets; quoted prices for identical or similar instruments in markets that are not active; and model-derived valuations whose inputs are observable or whose significant value drivers are observable.

Level 3 Inputs – Instruments with primarily unobservable value drivers.

A description of the valuation methodologies used for assets measured at fair value, as well as the general classification of these assets pursuant to the valuation hierarchy, is set forth below:

2014				
Fair Value Measurements Using Inputs Noted Above				
	Fair Value	Level 1	Level 2	Level 3
Cash and Cash Equivalents	627,130	627,130	-	-
Non-Interest Bearing Mortgages Receivable	2,532,789	-	-	2,532,789
Less: Unamortized Discount	(1,058,757)	-	-	(1,058,757)
Net	1,474,032	-	-	1,474,032
Total	<u>\$ 2,101,162</u>	<u>\$ 627,130</u>	<u>\$ -</u>	<u>\$ 1,474,032</u>
2013				
Fair Value Measurements Using Inputs Noted Above				
	Fair Value	Level 1	Level 2	Level 3
Cash and Cash Equivalents	604,293	604,293	-	-
Non-Interest Bearing Mortgages Receivable	2,533,051	-	-	2,533,051
Less: Unamortized Discount	(1,059,684)	-	-	(1,059,684)
Net	1,473,367	-	-	1,473,367
Total	<u>\$ 2,077,660</u>	<u>\$ 604,293</u>	<u>\$ -</u>	<u>\$ 1,473,367</u>

Habitat for Humanity of Denton County, Inc.
Notes to the Financial Statements
June 30, 2014 and 2013

NOTE 17 – FAIR VALUE OF FINANCIAL INSTRUMENTS (continued)

Non-interest bearing mortgage receivable and unamortized discount are classified within Level 3 of the valuation hierarchy. Habitat obtains these values by taking into account the following assumptions: (1) unamortized discount rate is the interest rate provided each year by International (7.58% and 7.39% in 2014 and 2013, respectively); (2) reliance on International's discount rate to be reflective of the overall market; (3) the discount is amortized using the effective interest method over the life of the mortgage; (4) mortgages receivable are valued based on the gross mortgage amount less discount and down payment received.