

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

FINANCIAL STATEMENTS

June 30, 2016 and 2015

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.

FINANCIAL STATEMENTS

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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, 2016 and 2015, and the related statements of activities 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.

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, 2016 and 2015, and the changes 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.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 8-9 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.

A handwritten signature in black ink that reads "Frank W. Bonn, CPA, PLLC". The signature is written in a cursive style.

Frank W. Bonn, CPA, PLLC
Colleyville, Texas
July 19, 2017

Habitat for Humanity of Denton County, Inc.
Statements of Financial Position
June 30, 2016 and 2015

ASSETS

	2016	2015
Current Assets		
Cash and Cash Equivalents	\$ 580,548	\$ 554,110
Escrow Cash - Temporarily Restricted	78,596	37,776
Accounts Receivable	-	1,000
ReStore Purchased Inventory, at Cost	9,361	9,466
ReStore Donated Inventory, at Fair Value	101,251	125,514
Current Portion of Non-Interest Bearing Mortgages Receivable	199,039	199,539
Prepays	9,225	9,028
Construction in Progress	30,102	64,463
Total Current Assets	1,008,122	1,000,896
Property and Equipment		
Property and Equipment, Net of Accumulated Depreciation of of \$244,578 and \$221,708, respectively	595,206	616,908
Other Assets		
Deposits	4,090	4,090
Land Held for Development	468,698	481,624
Non-Interest Bearing Long-Term Mortgages Receivable, Net of Discount Less Current Portion)	1,104,976	1,172,330
Total Other Assets	1,577,764	1,658,044
TOTAL ASSETS	\$ 3,181,092	\$ 3,275,848

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ -	\$ 2,738
Escrow Payable	78,596	37,776
Accrued Liabilities	4,834	20,682
Deferred Revenues	-	114,954
Current Portion of Notes Payable	35,507	33,522
Total Current Liabilities	118,937	209,672
Long-Term Liabilities		
BootStrap Loan Payable (Less Current Portion)	51,000	57,000
Mortgage Payable (Less Current Portion)	260,517	296,020
Total Long-Term Liabilities	311,517	353,020
Total Liabilities	430,454	562,692
Net Assets		
Unrestricted	2,672,042	2,675,380
Temporarily Restricted	78,596	37,776
Permanently Restricted	-	-
Total Net Assets	2,750,638	2,713,156
TOTAL LIABILITIES AND NET ASSETS	\$ 3,181,092	\$ 3,275,848

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Contributions and Grants				
Contributions	\$ 46,181	\$ 146,212	\$ -	\$ 192,393
Ruth's Room Contributions	-	157,670	-	157,670
Direct Public Grants	6,778	-	-	6,778
Sales of Completed Homes	152,146	-	-	152,146
Sales of Land and Duplex	185,075	-	-	185,075
Interest Income	116,776	-	-	116,776
ReStore Revenue	463,545	-	-	463,545
Walk-a-Thon	5,165	-	-	5,165
In-Kind Contributions	370,881	-	-	370,881
Late Fee Income	4,714	-	-	4,714
Gain (Loss) on Sale or Disposal of Fixed Assets	-	-	-	-
Net Assets Released from Restrictions	263,062	(263,062)	-	-
	<u>1,614,323</u>	<u>40,820</u>	<u>-</u>	<u>1,655,143</u>
EXPENSES				
Program Services	1,498,281	-	-	1,498,281
Management and General	104,854	-	-	104,854
Fundraising	14,526	-	-	14,526
	<u>1,617,661</u>	<u>-</u>	<u>-</u>	<u>1,617,661</u>
CHANGE IN NET ASSETS	(3,338)	40,820	-	37,482
NET ASSETS AT BEGINNING OF YEAR	<u>2,675,380</u>	<u>37,776</u>	<u>-</u>	<u>2,713,156</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,672,042</u>	<u>\$ 78,596</u>	<u>\$ -</u>	<u>\$ 2,750,638</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, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Contributions and Grants				
Contributions	\$ 111,130	\$ 53,088	\$ -	\$ 164,218
Ruth's Room Contributions	-	177,997	-	177,997
Direct Public Grants	-	-	-	-
Sales of Completed Homes	75,306	-	-	75,306
Sales of Land and Duplex	-	-	-	-
Interest Income	122,357	-	-	122,357
ReStore Revenue	406,253	-	-	406,253
Walk-a-Thon	14,745	-	-	14,745
In-Kind Contributions	435,450	-	-	435,450
Late Fee Income	4,566	-	-	4,566
Gain (Loss) on Sale or Disposal of Fixed Assets	(7,189)	-	-	(7,189)
Net Assets Released from Restrictions	193,309	(193,309)	-	-
 Total Revenue and Public Support	 1,355,927	 37,776	 -	 1,393,703
 EXPENSES				
Program Services	1,042,500	-	-	1,042,500
Management and General	158,982	-	-	158,982
Fundraising	19,230	-	-	19,230
 Total Expenses	 1,220,712	 -	 -	 1,220,712
 CHANGE IN NET ASSETS	 135,215	 37,776	 -	 172,991
 NET ASSETS AT BEGINNING OF YEAR	 2,540,165	 -	 -	 2,540,165
 NET ASSETS AT END OF YEAR	 <u>\$ 2,675,380</u>	 <u>\$ 37,776</u>	 <u>\$ -</u>	 <u>\$ 2,713,156</u>

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

Habitat for Humanity of Denton County, Inc.
Statement of Cash Flows
June 30, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 37,482	\$ 172,991
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:		
Transfers to Homeowners in Return for Mortgage Receivables	(150,146)	(74,306)
Depreciation Expense	22,870	24,059
Imputed Interest Income from Non-Interest Bearing Mortgage Loans	(116,776)	(122,357)
Discount on Current Year Non-Interest Bearing Mortgage Loans	81,525	40,818
(Gain) Loss on Sale or Disposal of Assets	-	7,189
(Increase) Decrease in Assets:		
Accounts Receivable	1,000	10,250
Prepaid Expenses	(197)	3,871
Inventory	24,368	(32,465)
Construction in Progress	34,361	(59,450)
Land Held for Homesites	12,926	(236,432)
Increase (Decrease) in Liabilities:		
Accounts Payable	(2,738)	(14,298)
Escrow Payable	40,820	(16,601)
Accrued Expenses	(15,848)	17,291
Deferred Revenues	(114,954)	41,088
CASH USED FOR OPERATING ACTIVITIES	(145,307)	(238,352)
CASH FLOWS FROM INVESTING ACTIVITIES		
Non-Interest Bearing Mortgage Loan Payments Received	253,251	258,008
Purchase of Property and Equipment	(1,168)	(17,272)
CASH PROVIDED BY INVESTING ACTIVITIES	252,083	240,736
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments on BootStrap Loans	(6,000)	(6,000)
Principle payments on Notes Payable	(33,518)	(31,628)
CASH USED FOR FINANCING ACTIVITIES	(39,518)	(37,628)

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

Habitat for Humanity of Denton County, Inc.
Statement of Cash Flows
June 30, 2016 and 2015

	2016	2015
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	67,258	(35,244)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	591,886	627,130
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 659,144	\$ 591,886
SUPPLEMENTAL DISCLOSURES		
Cash Paid During the Year for Interest Expense	\$ 17,731	\$ 19,620
In-Kind Contributions and Contributed Services	\$ 370,881	\$ 435,450
Non-cash Investing and Financing Activities:		
Issuance of Non-Interest Bearing Mortgage Loans	\$ 150,146	\$ 74,306
Discount on Non-Interest Bearing Mortgage Loans	\$ (81,525)	\$ (40,818)
Transfers to Homeowners Subject to Non-Interest Bearing Mortgage Loans	\$ 68,621	\$ 33,488

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, 2016

	Program Services	Management & General	Fundraising	Total
Salaries	\$ 383,503	\$ 7,535	\$ 4,511	\$ 395,549
Payroll Taxes	28,248	585	350	29,183
Employee Benefits	19,640	-	-	19,640
Contract Labor	593	-	-	593
Total Salaries and Related Expenses	431,984	8,120	4,861	444,965
Advertising	-	-	3,378	3,378
Bank Charges and Credit Card Fees	5,289	726	-	6,015
Cost of Goods Sold (ReStore)	386,309	-	-	386,309
Cost of Homes Sold	380,055	-	-	380,055
Depreciation	15,600	7,270	-	22,870
Dues and Subscriptions	-	2,814	-	2,814
Equipment Rental	-	4,491	-	4,491
Insurance	12,924	12,923	-	25,847
Interest Expense	8,865	8,866	-	17,731
Marketing and Promotions	8,011	-	-	8,011
Mortgage Discounts	81,525	-	-	81,525
Office Supplies	1,728	9,229	-	10,957
Postage and Shipping	-	1,391	-	1,391
Professional Fees	31,371	10,457	-	41,828
Rent	76,500	-	-	76,500
Repairs and Maintenance	14,644	2,154	-	16,798
Supplies	3,909	1,108	-	5,017
Telephone	1,756	5,619	-	7,375
Tithe	20,727	-	-	20,727
Travel and Entertainment	6,873	2,667	-	9,540
Utilities	3,905	25,412	-	29,317
Volunteer Appreciation	6,306	-	-	6,306
Walk-a-Thon	-	-	6,287	6,287
Website	-	1,607	-	1,607
Total Expenses	<u>\$ 1,498,281</u>	<u>\$ 104,854</u>	<u>\$ 14,526</u>	<u>\$ 1,617,661</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, 2015

	Program Services	Management & General	Fundraising	Total
Salaries	\$ 297,123	\$ 5,838	\$ 3,495	\$ 306,456
Payroll Taxes	20,289	420	251	20,960
Employee Benefits	17,257	-	-	17,257
Contract Labor	21,655	-	-	21,655
Total Salaries and Related Expenses	356,324	6,258	3,746	366,328
Advertising	-	-	2,355	2,355
Bank Charges and Credit Card Fees	5,359	30	-	5,389
Cost of Goods Sold (ReStore)	370,179	-	-	370,179
Cost of Homes Sold	109,626	-	-	109,626
Depreciation and Amortization	-	24,059	-	24,059
Dues and Subscriptions	-	698	-	698
Equipment Rental	-	5,603	-	5,603
Insurance	-	20,042	-	20,042
Interest Expense	-	19,620	-	19,620
Marketing and Promotions	29,854	-	-	29,854
Mortgage Discounts	40,818	-	-	40,818
Office Supplies	1,511	5,683	-	7,194
Postage and Shipping	-	1,011	-	1,011
Professional Fees	-	36,425	-	36,425
Rent	76,500	-	-	76,500
Repairs and Maintenance	7,060	5,506	-	12,566
Supplies	3,840	922	-	4,762
Telephone	1,856	4,503	-	6,359
Tithe	10,000	-	-	10,000
Travel and Entertainment	7,265	2,259	-	9,524
Utilities	3,415	24,244	-	27,659
Volunteer Appreciation	18,893	-	-	18,893
Walk-a-Thon	-	-	13,129	13,129
Website	-	2,119	-	2,119
Total Expenses	<u>\$ 1,042,500</u>	<u>\$ 158,982</u>	<u>\$ 19,230</u>	<u>\$ 1,220,712</u>

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, 2016 and 2015

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. 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, 2016 and 2015

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, 2016 and 2015

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.

Escrow Cash:

Escrow cash represents escrow payments made by current homeowners for future property tax and insurance payments.

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, 2016 and 2015

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 part of the 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, 2016 and 2015, two and one 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, 2016 and 2015

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, 2016 and 2015 were \$78,596 and \$37,776, 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, 2016 and 2015

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, 2016 and 2015.

Advertising Costs:

Advertising costs are expensed as incurred. Habitat incurred \$3,378 and \$2,355 in advertising costs for the years ended June 30, 2016 and 2015, 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, 2016 and 2015

NOTE 2 – PROPERTY AND EQUIPMENT

Property and Equipment consists of the following at June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 214,023	\$ 214,023
Building	511,677	511,677
Computer Equipment and Software	33,723	32,555
Furniture, Fixtures and Equipment	31,525	31,525
Vehicles	48,836	48,836
Less: Accumulated Depreciation	<u>(244,578)</u>	<u>(221,708)</u>
Total Property and Equipment	<u>\$ 595,206</u>	<u>\$ 616,908</u>

Depreciation expense was \$22,870 and \$24,059 for the years ended June 30, 2016 and 2015, respectively.

NOTE 3 – 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 holds 79 and 81 mortgage notes receivable with maturity dates ranging from 15 to 30 years as of June 30, 2016 and 2015. 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.

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Notes to the Financial Statements
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NOTE 3 – MORTGAGE NOTES RECEIVABLE (CONTINUED)

Payments due on mortgage notes receivable are as follows:

2017	\$	199,039
2018		192,935
2019		187,264
2020		168,281
2021		163,358
Thereafter		<u>1,332,478</u>
Notes Receivable at Face Value		2,243,355
Less: Unamortized Discount		<u>(941,967)</u>
Net Present Value of Mortgages		1,301,388
Less: Current Portion		<u>(199,039)</u>
Long-term Portion		<u><u>\$ 1,102,349</u></u>

NOTE 4 – 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, 2016 and 2015, Habitat was servicing four loans issued by TDHCA, with a total outstanding balance of \$51,000 and \$57,000, respectively.

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NOTE 5 –NOTES PAYABLE

The original promissory note to First State Bank in the amount of \$530,000 with a balance of \$296,024 and \$329,592 on June 30 2016 and 2015, 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, 2016:

Year Ended June 30,	Amount
2017	\$ 35,507
2018	37,559
2019	39,755
2020	41,969
2021	44,440
Beyond	96,794
	<u>\$ 296,024</u>

Interest expense for the years ended June 30, 2016 and 2015 was \$17,731 and \$19,620, respectively.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

There is \$78,596 and \$37,776 of temporarily restricted net assets as of June 30, 2016 and 2015, respectively.

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

There were no permanently restricted net assets as of June 30, 2016 or 2015.

NOTE 8 – 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 years ended June 30, 2016 and 2015.

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NOTE 9 – 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 2016, 2015, and 2014 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 10 – 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, 2016 and 2015, respectively:

	2016	2015
Construction Materials	\$ 31,525	\$ 9,682
ReStore Building Materials & Supplies	339,356	379,034
Professional Services	-	-
Land	-	35,000
Other	-	11,734
	\$370,881	\$435,450

NOTE 11 – RELATED PARTY TRANSACTION

During the years ended June 30, 2016 and 2015, Habitat paid tithes to International of \$20,727 and \$10,000 respectively.

NOTE 12 – 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, 2016 and 2015, Habitat's uninsured cash balances totaled approximately \$182,964 and \$194,260, respectively. Management does not believe it is exposed to significant credit risk.

Habitat for Humanity of Denton County, Inc.
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NOTE 13– COMMITMENTS AND CONTINGENCIES

Habitat leased retail space for Habitat’s ReStore under the terms of an operating lease. The lease was entered into November 1, 2010 and continued to October 31, 2015. The lease has options to extend the lease for two additional periods of five years each, however, Habitat is currently leasing on a month-to-month basis. Lease expense related to retail space for the years ended June 30, 2016 and 2015 was \$76,500 and \$76,500, 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, 2016 and 2015 was \$4,491 and \$5,603, respectively.

Future minimum lease payments required under these leases at June 30, 2016 are as follows:

Year Ended	Amount
<u>June 30,</u>	
2017	\$ 4,788
2018	798
2019 and Thereafter	-
	<u>\$ 5,586</u>

NOTE 14 –RECLASSIFICATIONS

Certain prior year amounts have been reclassified for consistency with current year presentation. These reclassifications had no effect on the reported results of operations.

NOTE 15 – SUBSEQUENT EVENTS

An evaluation of subsequent events was performed in accordance with ASC 855-10, *Subsequent Events*, through July 19, 2017 which is the date of the report. No material subsequent events were noted.

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NOTE 16 – 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:

	2016			
	<u>Fair Value Measurements Using Inputs Noted Above</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and Cash Equivalents	659,144	659,144	-	-
Non-Interest Bearing				
Mortgages Receivable	2,245,982	-	-	2,245,982
Less: Unamortized Discount	(977,314)	-	-	(977,314)
Net	<u>1,268,668</u>	<u>-</u>	<u>-</u>	<u>1,268,668</u>
Total	<u>\$ 1,927,812</u>	<u>\$ 659,144</u>	<u>\$ -</u>	<u>\$ 1,268,668</u>
	2015			
	<u>Fair Value Measurements Using Inputs Noted Above</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and Cash Equivalents	591,886	591,886	-	-
Non-Interest Bearing				
Mortgages Receivable	2,349,087	-	-	2,349,087
Less: Unamortized Discount	(977,218)	-	-	(977,218)
Net	<u>1,371,869</u>	<u>-</u>	<u>-</u>	<u>1,371,869</u>
Total	<u>\$ 1,963,755</u>	<u>\$ 591,886</u>	<u>\$ -</u>	<u>\$ 1,371,869</u>

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NOTE 16 – 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 (7.48% and 7.51% in 2016 and 2015, 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.