

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.

FINANCIAL STATEMENTS

For the Year Ended June 30, 2017

John F. Coggin, CPA PLLC
Certified Public Accountant

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.

FINANCIAL STATEMENTS

Table of Contents

	Pages
Report of Independent Auditors	1 – 2
Statement of Financial Position	3
Statement of Activities	4
Statement of Functional Expenses	5
Statement of Cash Flows	6 – 7
Notes to Financial Statements	8 – 17

*John F. Coggin CPA PLLC
222 West Las Colinas Blvd, Ste 1650
Irving, TX 75039*

Report of Independent Auditors

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, 2017, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the 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, 2017, 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.

Prior Period Financial Statements

The financial statements of Habitat for Humanity of Denton County, Inc. as of June 30, 2016, were audited by other auditors whose report dated July 19, 2017, expressed an unmodified opinion on those statements.

A handwritten signature in black ink that reads "John F. Coggin CPA PLLC". The signature is written in a cursive, flowing style.

John F. Coggin CPA PLLC
Irving, TX
March 15, 2018

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
STATEMENT OF FINANCIAL POSITION

June 30, 2017

ASSETS

	2017
Current Assets	
Cash and Cash Equivalents	\$ 461,356
ReStore Purchased Inventory, at Cost	12,911
ReStore Donated Inventory, at Fair Value	206,037
Current Portion of Non-Interest Bearing Mortgages Receivable	212,287
Prepays	4,037
Construction in Progress	9,881
Total Current Assets	\$ 906,509
Property and Equipment	
Property and Equipment, Net of Accumulated Depreciation of of \$267,551	593,333
Other Assets	
Restricted Cash	108,806
Deposits	4,090
Land Held for Development	353,544
Non-Interest Bearing Long-Term Mortgages Receivable, Net of Discount (Less Current Portion)	1,080,901
Total Other Assets	1,547,341
TOTAL ASSETS	\$ 3,047,183

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	
Escrow Payable	\$ 80,783
Accrued Liabilities	4,508
Deferred Revenues	-
Current Portion of Notes Payable	41,507
Total Current Liabilities	126,798
Long-Term Liabilities	
BootStrap Loan Payable (Less Current Portion)	39,000
Mortgage Payable (Less Current Portion)	225,020
Total Long-Term Liabilities	264,020
Total Liabilities	390,818
Net Assets	
Unrestricted	2,547,559
Temporarily Restricted	108,806
Permanently Restricted	-
Total Net Assets	2,656,365
TOTAL LIABILITIES AND NET ASSETS	\$ 3,047,183

See accompanying independent accountant auditors report and notes which are an integral part of these financial statements

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
STATEMENT OF ACTIVITIES
Year Ended June 30, 2017

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
REVENUE AND PUBLIC SUPPORT				
Contributions and Grants				
Contributions	31,324	256,979	-	288,303
Ruth's Room Contributions	-	109,776	-	109,776
Sales of Completed Homes	272,926	-	-	272,926
Interest Income	117,725	-	-	117,725
ReStore Revenue	488,536	-	-	488,536
In-Kind Contributions	104,786	-	-	104,786
Late Fee Income	5,813	-	-	5,813
Net Assets Released from Restrictions	336,308	(336,308)	-	-
	<u>1,357,418</u>	<u>30,447</u>	<u>-</u>	<u>1,387,865</u>
EXPENSES				
Program Services	1,353,188	237	-	1,353,425
Management and General	120,101	-	-	120,101
Fundraising	8,612	-	-	8,612
	<u>1,481,901</u>	<u>237</u>	<u>-</u>	<u>1,482,138</u>
CHANGE IN NET ASSETS	(124,483)	30,210	-	(94,273)
NET ASSETS AT BEGINNING OF YEAR	<u>2,672,042</u>	<u>78,596</u>	<u>-</u>	<u>2,750,638</u>
NET ASSETS AT END OF YEAR	<u><u>2,547,559</u></u>	<u><u>108,806</u></u>	<u><u>-</u></u>	<u><u>2,656,365</u></u>

See accompanying independent accountant auditors report and notes which are an integral part of these financial statements

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2017

	Program Services	Management & General	Fundraising	Total
Salaries	\$ 429,221	\$ 8,433	\$ 5,049	\$ 442,703
Payroll Taxes	33,969	703	421	35,093
Employee Benefits	40,836	-	-	40,836
Total Salaries and Related Expenses	504,026	9,136	5,470	518,632
Advertising	-	-	1,203	1,203
Bank Charges and Credit Card Fees	7,229	992	-	8,221
Cost of Goods Sold (ReStore)	15,687	-	-	15,687
Cost of Homes Sold	435,550	-	-	435,550
Depreciation	12,205	10,768	-	22,973
Dues and Subscriptions	-	4,054	-	4,054
Equipment Rental	-	-	-	-
Insurance	18,093	18,092	-	36,185
Interest Expense	7,876	7,876	-	15,752
Marketing and Promotions	9,779	-	-	9,779
Mortgage Discounts	160,566	-	-	160,566
Office Supplies	4,192	24,415	-	28,607
Postage and Shipping	-	-	-	-
Professional Fees	25,124	8,374	-	33,498
Rent	76,500	-	-	76,500
Repairs and Maintenance	8,211	1,208	-	9,419
Resource Development	23,920	-	-	23,920
Supplies	6,617	1,876	-	8,493
Telephone	2,235	7,153	-	9,388
Tithe	23,125	-	-	23,125
Training	3,706	-	-	3,706
Travel and Entertainment	576	223	-	799
Utilities	3,832	24,936	-	28,768
Volunteer Appreciation	4,376	-	-	4,376
Walk-a-Thon	-	-	1,939	1,939
Website	-	998	-	998
Total Expenses	<u>\$ 1,353,425</u>	<u>\$ 120,101</u>	<u>\$ 8,612</u>	<u>\$ 1,482,138</u>

See accompanying independent accountant auditors report and notes which are an integral part of these financial statements

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

2017

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	(94,273)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Transfers to Homeowners in Return for Mortgage Receivables	(274,022)
Depreciation Expense	22,973
Imputed Interest Income from Non-Interest Bearing Mortgage Loans	(117,136)
Discount on Current Year Non-Interest Bearing Mortgage Loans	160,055
(Gain) Loss on Sale or Disposal of Assets	
 (Increase) Decrease in Assets:	
Prepaid Expenses	5,187
Inventory	(108,336)
Construction in Progress	20,221
Land Held for Homesites	115,154
 Increase (Decrease) in Liabilities:	
Escrow Payable	2,189
Accrued Expenses	(326)
Deferred Revenues	-
	-

CASH USED FOR OPERATING ACTIVITIES (268,314)

CASH FLOWS FROM INVESTING ACTIVITIES

Non-Interest Bearing Mortgage Loan Payments Received	241,929
Purchase of Property and Equipment	(21,100)

CASH PROVIDED BY INVESTING ACTIVITIES 220,829

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on BootStrap Loans	(6,000)
Principle payments on Notes Payable	(35,497)

CASH USED FOR FINANCING ACTIVITIES (41,497)

See accompanying independent accountant auditors report and notes which are an integral part of these financial statements

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
STATEMENT OF CASH FLOWS
Year Ended June 30, 2017

	2017
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(88,982)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>659,144</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR - UNRESTRICTED	<u>461,356</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR - RESTRICTED	<u>108,806</u>

SUPPLEMENTAL DISCLOSURES

Cash Paid During the Year for Interest Expense	<u>15,752</u>
In-Kind Contributions and Contributed Services	<u>104,786</u>
Non-cash Investing and Financing Activities:	
Issuance of Non-Interest Bearing Mortgage Loans	<u>274,022</u>
Discount on Non-Interest Bearing Mortgage Loans	<u>(160,055)</u>
Transfers to Homeowners Subject to Non-Interest Bearing Mortgage Loans	<u>113,967</u>

See accompanying independent accountant auditors report and notes which are an integral part of these financial statements

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF 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 FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

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 FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

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 FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

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, 2017 and 2016, three and two 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.

Second mortgages may be used to complete the mortgage purchase process. These mortgages are written off based upon the home buyer meeting certain requirements. The second mortgages are not recorded on the organization's books and records.

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

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, 2017 and 2016 were \$80,783 and \$78,596, 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.

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, 2017.

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT)

Advertising Costs:

Advertising costs are expensed as incurred. Habitat incurred \$1,203 and \$3,378 in advertising costs for the years ended June 30, 2017 and 2016, 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.

NOTE 2 – PROPERTY AND EQUIPMENT

Property and Equipment consists of the following at June 30, 2017:

	<u>2017</u>
Land	\$ 214,023
Building	511,677
Computer Equipment and Software	33,783
Furniture, Fixtures and Equipment	31,525
Vehicles	69,936
Less: Accumulated Depreciation	<u>(267,551)</u>
Total Property and Equipment	<u>\$ 593,333</u>

Depreciation expense was \$22,973 for the years ended June 30, 2017

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2017

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 82 and 81 mortgage notes receivable with maturity dates ranging from 15 to 30 years as of June 30, 2017 and 2016. 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:

2018	\$	198,559
2019		196,839
2020		190,890
2021		188,950
2022		183,019
Thereafter		1,319,818
Notes Receivable at Face Value		2,278,075
Less: Unamortized Discount		(984,887)
Net Present Value of Mortgages		1,293,188
Less: Current Portion		(212,287)
Long-term Portion	\$	1,080,901

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, 2017, Habitat was servicing four loans issued by TDHCA, with a total outstanding balance of \$45,000.

NOTE 5 –NOTES PAYABLE

The original promissory note to First State Bank in the amount of \$530,000 with a balance of \$260,527 on June 30, 2017, 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.

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 5 –NOTES PAYABLE (CONT)

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

<u>Year Ended June 30, 2017</u>	<u>Amount</u>
2018	\$ 37,559
2019	39,755
2020	41,969
2021	44,440
2022-2023	96,804
	<u>\$ 260,527</u>

Interest expense for the years ended June 30, 2017 was \$15,752.

NOTE 6 – TEMPORARILY RESTRICTED NET ASSETS

There is \$108,806 of temporarily restricted net assets as of June 30, 2017. The restrictions arise from escrow funds and a pass-through arrangement of funds collected for a campaign relating to social justice.

NOTE 7 – PERMANENTLY RESTRICTED NET ASSETS

There were no permanently restricted net assets as of June 30, 2017.

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, 2017.

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. The contributions were \$104,786 and \$370,881 for the years ended June 30, 2017 and 2016, respectively.

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 11 – RELATED PARTY TRANSACTION

During the years ended June 30, 2017 and 2016, Habitat paid tithes to International of \$23,125 and \$20,727 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, 2017, Habitat's uninsured cash balances totaled approximately \$23,175. Management does not believe it is exposed to significant credit risk.

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 \$418 and expires June 15, 2020. Lease expense related to office equipment for the years ended June 30, 2017 and 2016 was \$5,177 and \$4,491, respectively.

Future minimum lease payments required under the copier lease at June 30, 2017 are \$5,016 for 2018 – 2020.

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 March 15, 2018 which is the date of the report. No material subsequent events were noted.

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:

HABITAT FOR HUMANITY OF DENTON COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
June 30, 2017

NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONT)

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:

	2017			
	Fair Value Measurements Using Inputs Noted Above			
	Fair Value	Level 1	Level 2	Level 3
Cash and Cash Equivalents	570,162	570,162	-	-
Non-Interest Bearing	-	-	-	-
Mortgages Receivable	2,278,075	-	-	2,278,075
Less: Unamortized Discount	(984,887)	-	-	(984,887)
	<u>1,293,188</u>	<u>-</u>	<u>-</u>	<u>1,293,188</u>
Net	1,293,188	-	-	1,293,188
Total	<u>\$ 1,863,350</u>	<u>\$ 570,162</u>	<u>\$ -</u>	<u>\$ 1,293,188</u>

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 (7.51% and 7.48% in 2017 and 2016, 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.