

**NORTH COLLIN COUNTY
HABITAT FOR HUMANITY**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2015 AND 2014**

WITH INDEPENDENT AUDITORS' REPORT

NORTH COLLIN COUNTY HABITAT FOR HUMANITY

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PATTILLO, BROWN & HILL, L.L.P.
CERTIFIED PUBLIC ACCOUNTANTS ■ BUSINESS CONSULTANTS

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
North Collin County Habitat for Humanity

We have audited the accompanying statements of financial position of North Collin County Habitat for Humanity (a nonprofit organization), which comprise the statements of financial position as of June 30, 2013 and 2014, and the related statements of activities, statements of cash flows, and schedules of 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 audit. We conducted our audit 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 presented fairly in all material respects, the financial position of North Collin County Habitat for Humanity as of June 30, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited North Collin County Habitat for Humanity's June 30, 2014 financial statements, and our report dated October 10, 2014, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented on the Statement of Activities for the year ended June 30, 2015, is consistent, in all material respects, with the audited Statement of Activities from which it has been derived.

Pattillo, Brown & Hill, L.L.P.

Waco, Texas
September 17, 2015

FINANCIAL STATEMENTS

NORTH COLLIN COUNTY HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2015 AND 2014

	2015	2014
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 125,363	\$ 96,961
Temporarily restricted cash	191,869	40,144
Contributions receivable	268,319	301,384
Inventory	186,734	193,531
Inventories - land held for development	175,426	203,573
Non-interest bearing mortgages receivable, current portion (net of discount)	158,166	145,266
TDHCA Boot Strap agency receivables, current portion	61,438	50,188
Other receivables	<u>22,815</u>	<u>315</u>
Total Current Assets	<u>1,190,130</u>	<u>1,031,362</u>
LONG-TERM ASSETS		
Property, furniture and equipment (net)	1,521,359	1,556,404
Contributions receivable	25,000	60,500
Non-interest bearing mortgages receivable, long-term portion (net of discount)	1,954,415	1,865,651
TDHCA Boot Strap agency receivables, long-term portion	923,897	766,899
HBA agency receivable	16,250	17,250
Discount on non-interest bearing mortgage	(1,066,779)	(1,018,045)
Construction in progress	<u>163,083</u>	<u>274,823</u>
Total Long-term Assets	<u>3,537,225</u>	<u>3,523,482</u>
Total Assets	<u>\$ 4,727,355</u>	<u>\$ 4,554,844</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 85,856	\$ 95,509
Escrow-mortgage holders	69,717	67,834
Due to ReStore	48,086	36,780
Due to TDHCA Boot Strap, current portion	61,438	50,188
Notes payable, current portion (net of discount)	<u>132,968</u>	<u>96,924</u>
Total Current Liabilities	<u>398,065</u>	<u>347,235</u>
LONG-TERM LIABILITIES		
Due to TDHCA Bootstrap, long-term portion	924,465	767,465
Due to HBA	12,667	14,667
Notes payable, long-term portion (net of discount)	<u>1,293,299</u>	<u>1,358,114</u>
Total Long-term Liabilities	<u>2,230,431</u>	<u>2,140,246</u>
Total Liabilities	<u>2,628,496</u>	<u>2,487,481</u>
NET ASSETS		
Unrestricted	1,432,181	1,571,452
Temporarily restricted	<u>666,678</u>	<u>495,911</u>
Total Net Assets	<u>2,098,859</u>	<u>2,067,363</u>
Total Liabilities and Net Assets	<u>\$ 4,727,355</u>	<u>\$ 4,554,844</u>

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

NORTH COLLIN COUNTY HABITAT FOR HUMANITY

STATEMENTS OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

(With Summarized Financial Information for the Year Ended June 30, 2014)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2015 Total	2014 Total
REVENUE AND OTHER SUPPORT					
Grants	\$ -	\$ 261,495	\$ -	\$ 261,495	\$ 398,177
Contributions	158,497	341,121	-	499,618	457,716
Contributions - non cash	58,136	-	-	58,136	202,175
Donated materials	491,550	-	-	491,550	409,827
Discount amortization	75,925	-	-	75,925	77,804
Transfers to homeowners	429,854	-	-	429,854	293,024
ReStore sales	1,110,226	-	-	1,110,226	1,104,557
Special events, net of expenses	18,993	-	-	18,993	13,429
Miscellaneous	49,603	-	-	49,603	20,470
Interest income	486	-	-	486	208
Net assets released from restrictions	<u>431,849</u>	<u>(431,849)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Revenue and Other Support	<u>2,825,119</u>	<u>170,767</u>	<u>-</u>	<u>2,995,886</u>	<u>2,977,387</u>
EXPENSES					
Home ownership program	1,345,517	-	-	1,345,517	1,033,698
ReStore program	1,437,493	-	-	1,437,493	1,424,682
Management and administrative	<u>132,444</u>	<u>-</u>	<u>-</u>	<u>132,444</u>	<u>131,427</u>
Total Expenses	<u>2,915,454</u>	<u>-</u>	<u>-</u>	<u>2,915,454</u>	<u>2,589,807</u>
OTHER INCOME/(EXPENSES)					
Gain (Loss) on disposition of assets	<u>(519)</u>	<u>-</u>	<u>-</u>	<u>(519)</u>	<u>20,765</u>
CHANGE IN NET ASSETS	<u>(90,854)</u>	<u>170,767</u>	<u>-</u>	<u>79,913</u>	<u>408,345</u>
NET ASSETS, BEGINNING OF YEAR	<u>1,523,035</u>	<u>495,911</u>	<u>-</u>	<u>2,018,946</u>	<u>1,610,601</u>
NET ASSETS, END OF YEAR	<u>\$ 1,432,181</u>	<u>\$ 666,678</u>	<u>\$ -</u>	<u>\$ 2,098,859</u>	<u>\$ 2,018,946</u>

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

NORTH COLLIN COUNTY HABITAT FOR HUMANITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED JUNE 30, 2015 AND 2014

	2015	2014
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 31,496	\$ 456,762
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	83,805	87,007
Discount amortization-mortgages	48,734	(45,731)
Transfer to homeowners	(429,854)	(293,024)
Loss on the disposal of assets	519	21,925
Effect of changes in assets and liabilities:		
(Increase) decrease in inventories - (lots)	28,147	(45,046)
(Increase) decrease in inventories - (resale)	6,797	10,736
(Increase) decrease in contributions receivable	68,565	(294,384)
(Increase) decrease in agency receivable	(998)	(2,568)
(Increase) decrease in other receivables	(22,500)	-
(Increase) decrease in homes under construction	111,740	(170,750)
Increase (decrease) in accounts payable and accrued expenses	3,536	3,347
Net Cash Used by Operating Activities	(70,013)	(271,726)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of land, building and equipment	(49,279)	(171,222)
Net loan proceeds	(28,771)	80,232
Mortgage payments received	328,190	387,117
Net Cash Provided by Investing Activities	250,140	296,127
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	180,127	24,401
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	137,105	112,704
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 317,232	\$ 137,105
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Issuance of non-interest bearing mortgage loans	\$ 429,854	\$ 293,024
Discount on non-interest bearing mortgages loans	(124,659)	(32,070)
Transfers to homeowners subject to non-interest bearing mortgage loans	\$ 305,195	\$ 260,954
Cash paid for interest	\$ 61,304	\$ 57,110

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

NORTH COLLIN COUNTY HABITAT FOR HUMANITY

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Program Services</u>		<u>Support Services</u>	<u>Total</u>
	<u>Construction</u>	<u>ReStore</u>	<u>Management and General</u>	<u>2015</u>
Bank charges	\$ 538	\$ 176	\$ 470	\$ 1,184
Contract labor	121	32,439	108	32,668
Credit card fees	-	-	1,636	1,636
Depreciation expense	12,333	63,607	7,865	83,805
Dues and subscriptions	1,801	825	2,571	5,197
Equipment rental	2,819	3,111	3,464	9,394
Fleet Expense	5,710	20,464	927	27,101
Insurance	10,955	21,238	1,942	34,135
Interest expense	22,428	35,414	3,462	61,304
Materials and supplies	485,008	833,832	1,237	1,320,077
Miscellaneous	349	426	1,898	2,673
Mortgage discount	124,659	-	-	124,659
Office expenses	3,651	5,167	5,413	14,231
Postage	1,997	441	1,552	3,990
Printing, promotions, and advertising	1,926	22,527	11,741	36,194
Professional fees	3,375	1,125	3,000	7,500
Program expenses	200,874	22	-	200,896
Repairs & Maintenance	2,153	6,628	988	9,769
Salaries and benefits	390,312	342,196	78,424	810,932
Telephone	7,971	9,334	1,762	19,067
Tithe	30,000	-	-	30,000
Travel	24,762	4,271	1,440	30,473
Utilities	11,775	34,250	2,544	48,569
	<u>\$ 1,345,517</u>	<u>\$ 1,437,493</u>	<u>\$ 132,444</u>	<u>\$ 2,915,454</u>
Total Expenses	<u>\$ 1,345,517</u>	<u>\$ 1,437,493</u>	<u>\$ 132,444</u>	<u>\$ 2,915,454</u>

See accompanying independent auditor's report.

NORTH COLLIN COUNTY HABITAT FOR HUMANITY

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2014

	Program Services		Support Services	Total
	Construction	ReStore	Management and General	2014
Bank charges	\$ 873	\$ 870	\$ 596	\$ 2,339
Contract labor	-	19,045	-	19,045
Credit card fees	-	20,347	656	21,003
Depreciation expense	8,509	68,373	10,125	87,007
Dues and subscriptions	2,236	1,375	2,740	6,351
Equipment rental	2,048	3,298	3,730	9,076
Fleet expense	4,770	18,078	3,302	26,150
Insurance	7,817	18,963	1,143	27,923
Interest expense	13,172	41,082	2,856	57,110
Materials and supplies	338,203	783,818	-	1,122,021
Miscellaneous	236	1,482	949	2,667
Mortgage discount	80,487	-	-	80,487
Office expenses	3,779	8,695	5,140	17,614
Postage	1,820	855	1,334	4,009
Printing, promotion, and advertising	1,325	28,328	9,282	38,935
Professional fees	3,375	1,125	3,000	7,500
Program expenses	166,047	210	1,376	167,633
Repairs & maintenance	900	7,757	352	9,009
Salaries and benefits	337,921	352,974	78,403	769,298
Telephone	7,676	7,767	1,685	17,128
Tithe	25,000	-	-	25,000
Travel	18,564	1,322	1,664	21,550
Utilities	8,940	38,918	3,094	50,952
	<u>\$ 1,033,698</u>	<u>\$ 1,424,682</u>	<u>\$ 131,427</u>	<u>\$ 2,589,807</u>
Total Expenses	<u>\$ 1,033,698</u>	<u>\$ 1,424,682</u>	<u>\$ 131,427</u>	<u>\$ 2,589,807</u>

See accompanying independent auditor's report.

NORTH COLLIN COUNTY HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2015 AND 2014

1. ORGANIZATION AND NATURE OF ACTIVITIES

North Collin County Habitat for Humanity, Inc. dba (“Habitat”) is a not-for-profit interdenominational organization whose purpose is to encourage, promote and assist in the building and rehabilitation of housing for ownership by low-income persons in the North Collin County area (Frisco, Celina, McKinney, Princeton, Anna, Melissa, Prosper, Farmersville, New Hope, and Blue Ridge). Habitat is an affiliate of Habitat for Humanity International, Inc., located in Americus, Georgia.

Habitat is a privately operated and financed program that transfers such housing to low income persons at cost after completion of construction, utilizing non-interest bearing notes. Habitat expects to continue to finance its operations through continuing contributions and mortgage receipts.

Habitat’s Program Services includes the home construction program and the ReStore Program (a retail operation) that sells usable materials donated by retail businesses, construction companies, contractors, and the general public at below cost prices. The proceeds from the ReStore fund Habitat’s community programs.

Habitat is a nonprofit organization, as described in Section 501(c)(3) of the Internal Revenue Code, and is exempt from federal income taxes and has been classified as a publicly supported organization as described in Sections 509(a)(1) and 170(b)(A)(VI).

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of North Collin County Habitat for Humanity have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities, in accordance with generally accepted accounting principles.

Basis of Presentation

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) 958, “Not-for-Profit Entities.” Under ASC 958, North Collin County Habitat for Humanity is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Also in accordance with ASC 958, contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

A description of the three net asset categories follows:

Unrestricted Net Assets

Unrestricted Net Assets represent resources over which the Board of Directors has discretionary control and can be used currently for the general purposes North Collin County Habitat for Humanity in accordance with its bylaws. The Board may voluntarily designate unrestricted resources of specific purposes, but this is a voluntary action of the governing board that can be modified or reversed at its discretion. These designations of unrestricted resources by the governing board do not have the same legal requirements as do restrictions of funds.

Temporarily Restricted Net Assets

Temporarily Restricted Net Assets represent resources currently available for use, but expendable only for those operating purposes specified by the donor.

Permanently Restricted Net Assets

Permanently Restricted Net Assets represent principal amounts of gifts and bequests which have been accepted with the donor stipulation that the principal be maintained intact in perpetuity or a specified period, with only the income to be utilized.

Cash and Cash Equivalents

North Collin County Habitat for Humanity considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Restricted Cash

The Board of Directors has restricted \$191,869 and \$40,144 of cash for purposes of renovations for the years ended June 30, 2015 and 2014, respectively.

Contributions Receivable

Contributions, including unconditional promises to give, are recognized when received. All contributions are reported as increases in unrestricted net assets unless use of the contributed assets is specifically restricted by the donor. Amounts received that are restricted by the donor to use in future periods or for specific purposes are reported as increases in temporarily restricted net assets, consistent with the nature of the restriction. Unconditional promises with payments due in future years have an implied restriction to be used in the year the payment is due, and therefore are reported as temporarily restricted until the payment is due.

Mortgages Receivable

Mortgages receivables consist of non-interest-bearing mortgages, which are secured by real estate and payable in monthly installments. The mortgages have an original maturity of 20 years. These mortgages have been discounted at various rates ranging from 7.39% to 8.34% based on the prevailing market rates at the inception of the mortgages. Interest income (amortization of the discount) is recorded using the straight-line method over the lives of the mortgages.

Property and Equipment

Fixed asset acquisitions are recorded at cost. Depreciation is provided over the estimated useful lives of the assets and is computed using the straight-line method. Leasehold improvements are amortized over the life of the lease or asset, whichever is shorter. This amortization expense is reported as a part of occupancy cost.

Construction in Progress

Construction in progress is recorded at cost and includes all direct material, labor and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tool costs. Land costs included in construction-in-progress are stated at the lower of cost or the fair value at the date of the contribution. Included in land costs are any costs incurred in development. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities as program services.

Support

Contributions received and unconditional promises to give are measured at their fair values and are reported as an increase in net assets. Gifts of cash and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or when the purpose of the restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activity as net assets released from restrictions.

Gifts of goods and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used are reported as restricted support. In the absence of explicit donor stipulations about how long-lived assets must be maintained, Habitat reports expirations of donor restrictions when the donated or acquired long-lived assets are placed.

Functional Expenses

The cost of providing the various programs and supporting services has been summarized on a functional basis. Accordingly, certain costs have been allocated between program and supporting services in reasonable ratios determined by management.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Income Taxes

Habitat has been granted exemptions from federal income taxes under Section 501(c)(3) of the Internal Revenue code. As such, no provision for income taxes is reflected in the financial statements.

The accounting standards on accounting for uncertainty in income taxes address the determination of whether tax benefits claimed or expected to be claimed on a tax return should be recorded in the financial statements. Under that guidance, Habitat may recognize the tax benefit from an uncertain tax position only if it is more likely than not that the tax position will be sustained on examination by taxing authorities based on the technical merits of the position. Examples of tax positions include the tax-exempt status of Habitat and various positions related to the potential sources of unrelated business taxable income (UBIT). The tax benefits recognized in the financial statements from a tax position are measured based on the largest benefit that has a greater than 50% likelihood of being realized upon ultimate settlement. There were no unrecognized tax benefits identified or recorded as liabilities for fiscal years 2015 and 2014.

Habitat files its forms 990 in the U.S. federal jurisdiction and the office of the state's attorney general for the State of Texas. Habitat is no longer subject to examination by the Internal Revenue Service for years before 2012.

Support and Cost

Grants, gifts of cash, and other assets are reported as restricted support if they are received with donor stipulations that limit the use of the donated assets, or if they are designated as support for future periods. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of net activities as net assets released from restrictions.

Gifts of goods and equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets explicit restrictions that specify how the assets are to be used are reported as restricted support. In the absence of explicit donor stipulations about how long-lived assets must be maintained, Habitat reports expirations of donor restrictions when the donated or acquired long-lived assets are placed.

ReStore revenue is recognized when the donated goods are sold. ReStore expenses are recognized when incurred.

Expense Allocation

Costs have been summarized on a functional basis in the Statement of Activities and in the Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Donated Services

A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in these financial statements since it is susceptible to objective measurement or valuation.

Construction in Progress

Construction in progress is recorded at cost and includes all direct material, labor, and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tool costs. Land costs included in construction in progress are stated at cost or fair value at the date of the contribution. Included in land costs are any costs incurred in development. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities as program services.

Transfer or Sale to Homeowners

Transfers to homeowners are recorded at the gross mortgage. The mortgages do not bear interest, but have been discounted based upon applicable rates of interest published by Habitat for Humanity International, Inc. Using the interest method of amortization, these discounts will be recognized as mortgage loan amortization over the term of the mortgages.

Home Construction Costs

Costs incurred in conjunction with home construction are capitalized. Construction costs are expensed during the year a home is sold and included in program services.

Prior Year Summarized Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with Habitat's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

3. PROPERTY AND EQUIPMENT

Property and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the respective assets, ranging from five to fifteen years.

	<u>June 30, 2014</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2015</u>
Land	\$ 256,597	\$ -	\$(2,750)	\$ 253,847
Buildings and improvements	1,244,280	88,959	(58,828)	1,274,411
Furniture and fixtures	98,616	3,137	-	101,753
Vehicles and trailers	85,818	3,995	-	89,813
Machinery and equipment	<u>139,130</u>	<u>11,022</u>	<u>(661)</u>	<u>149,491</u>
	1,824,441	107,113	(62,239)	1,869,315
Less accumulated depreciation	<u>(268,037)</u>	<u>(83,805)</u>	<u>3,886</u>	<u>(347,956)</u>
Total property and equipment, net of depreciation	<u>\$ 1,556,404</u>	<u>\$ 23,308</u>	<u>\$(58,353)</u>	<u>\$ 1,521,359</u>

Depreciation expense for the years ended June 30, 2015 and 2014 was \$83,805 and \$87,007, respectively.

4. CONSTRUCTION IN PROGRESS

Real estate costs, building materials and contract labor are recorded at cost when incurred. The administrative costs of developing projects are allocated to the respective projects. Construction in progress consists of the following:

	<u>June 30, 2015</u>		<u>June 30, 2014</u>	
	<u>Homes</u>	<u>Cost</u>	<u>Homes</u>	<u>Cost</u>
Homes under construction at beginning of year	6	\$ 274,823	3	\$ 104,073
Additional cost incurred during the year	-	188,184	-	118,867
New homes started during the year	5	165,404	8	418,823
Homes transferred during the year	<u>(7)</u>	<u>(465,328)</u>	<u>(5)</u>	<u>(366,940)</u>
Homes under construction at year-end	<u>5</u>	<u>\$ 163,083</u>	<u>6</u>	<u>\$ 274,823</u>

5. INVENTORIES

Land held for development consists of home lots to be developed and costs incurred in conjunction with home construction. They are capitalized until the completion of each home. Home lot inventory was \$175,426 and \$203,573 as of June 30, 2015 and 2014, respectively.

Inventory for the ReStore consists of items for resale which have been either purchased by Habitat or donated to the Organization. All purchased inventory is valued at the lower of cost or market. All donated inventory is recognized as contribution revenue at fair market value on the date of donation and also immediately recognized as contribution expense. Therefore, donated items are carried in inventory with no value. Thus, the balance of inventory, representing only those items purchased by the ReStore, totaled \$186,734 and \$193,531 as of June 30, 2015 and 2014, respectively.

6. SALES TO HOMEOWNERS

During the years ended June 30, 2015 and 2014, seven and five homes were sold to qualifying applicants, respectively. The resulting mortgages are non-interest bearing and the presentation of their book value have been discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages. The discount rates for the years ended June 30, 2015 and 2014 were 7.51% and 7.58%, respectively. The discounts totaled \$124,659 for 2015 and \$31,669 for 2014.

7. MORTGAGES RECEIVABLE

Habitat finances all of the homes that are sold. Each mortgage is issued as a zero-interest mortgage to the buyer. Habitat discounts the mortgages using the current interest rates at the time the home is sold. The discount is amortized using the effective interest method. Mortgages receivable as of June 30, 2015 and 2014 are as follows:

	<u>2015</u>	<u>2014</u>
Mortgages receivable (at face value)	\$ 2,112,581	\$ 2,010,917
Unamortized discount on mortgages	<u>(1,066,779)</u>	<u>(1,018,045)</u>
	<u>\$ 1,045,802</u>	<u>\$ 992,872</u>

Future collections on these mortgages will be received over the next five years as follows:

2016	\$ 158,166
2017	158,166
2018	158,166
2019	158,166
2020	158,166
Thereafter	<u>1,321,751</u>
Total	<u>\$ 2,112,581</u>

Mortgages are considered delinquent when the monthly mortgage payment is at least 31 days past due. As of June 30, 2015, nineteen mortgages totaling \$10,466 were past due. As of June 30, 2014, sixteen mortgages totaling \$10,729 were past due. Habitat is in the process of making arrangements with the individual homeowners to bring their balance to current. All balances are believed to be collectible and no allowance has been recognized.

Some of the homeowners who have mortgages with Habitat have entered into a secondary loan agreement with the Texas Department of Housing and Community Affairs Texas Boot Strap Loan Program. Habitat continues to collect and manage these mortgages, and then remits the amount collected to the agency. These amounts are reported as agency receivables and agency payables on the statement of financial position and normally do not have any effect on the change in net assets. As of June 30, 2015, the balance in the agency receivables is \$985,335 and agency payables account is \$985,903. The balances of the agency receivable and payable as of June 30, 2014 were \$817,087 and \$817,653, respectively. Typically, the balance of the agency receivable equals the balance of the agency payable. However, during the current and prior fiscal year, Habitat decided to take back the house of one homeowner. While the Organization wrote off the outstanding receivable from the homeowner, Habitat is still liable to TDHCA for the balance due to them from the homeowner.

During 2012, two homeowners also entered into secondary agreements with the Texas Department of Housing and Community Affairs Homebuyer Assistance Program. Similar as to their agreement with the TDHCA Texas Boot Strap Loan Program, Habitat continues to collect and manage these mortgages and then remits the amount collected to the agency. These amounts are reported as agency receivables and agency payables on the statement of financial position and do not have any effect on the change in net assets. As of June 30, 2015, the balances of the agency receivable and payable were \$16,250 and \$12,667, respectively. As of June 30, 2014, the balance of the agency receivable and agency payable were \$17,250 and \$14,667, respectively.

8. CONTRIBUTIONS RECEIVABLE

Contributions receivable at June 30, 2015 are as follows:

Less than 1 year	\$ 268,319
1 year to 5 years	<u>25,000</u>
	<u>\$ 293,319</u>

Contributions receivable at June 30, 2014 are as follows:

Less than 1 year	\$ 301,384
1 year to 5 years	<u>60,500</u>
	<u>\$ 361,884</u>

9. LONG-TERM DEBT

Long-term debt, net of discounts, consists of the following notes as of June 30, 2015 and 2014:

	<u>2015</u>	<u>2014</u>
Notes payable to Texas Department of Housing and Community Affairs (TDHCA) in the original amount of \$1,426,456 and \$870,018 as of June 30, 2015 and 2014, respectively; bearing interest ranging from 0% to 4%, discount calculated based on hypothetical imputed interest rate ranging between 7.39% and 8.34%, the rate is provided annually by Habitat for Humanity International. resulting in a discount of \$456,161 and \$226,267 as of June 30, 2015 and 2014, respectively. The corporation remits monthly payments of \$6,428 and the loans mature July 2021 through June 2033.	\$ 879,773	\$ 557,713
Line of credit to a bank in the amount of \$25,000 due October 21, 2014; interest rate of 0%.	-	25,000
Note payable to a bank; interest rate of 5.25%; due May 25, 2026. Secured by Land & Building.	537,769	858,963
Note payable to a vehicle financing company; interest rate of 1.90%; due June 14, 2017. Secured by the associated vehicle.	<u>8,725</u>	<u>13,362</u>
	1,426,267	1,455,038
Less current installments	<u>(132,968)</u>	<u>(96,924)</u>
Long-term debt, excluding current installments	<u>\$ 1,293,299</u>	<u>\$ 1,358,114</u>

The maturities of long-term debt by fiscal year are as follows:

2016	\$ 132,968
2017	137,518
2018	139,049
2019	144,842
2020	150,910
Thereafter	<u>720,980</u>
Total	<u>\$ 1,426,267</u>

10. IN-KIND CONTRIBUTIONS

Habitat receives in-kind contributions of land, materials and services used in the construction of its homes. The contributed asset is recognized as an asset at its estimated fair value at the date of give, provided that the value of the asset and its estimated useful life meets Habitat's capitalization policy. The total amount for in-kind contributions for the year ending June 30, 2015 was \$58,136 and \$202,175 in 2014.

Habitat also received furniture, household items and constructional materials used in home construction and repair for sale in the ReStore. All donations are valued at the estimated fair market value on the date the donation is made.

11. RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>2015</u>	<u>2014</u>
Temporarily restricted Contributions Temporarily Restricted	\$ <u>666,678</u>	\$ <u>495,911</u>

12. COMMITMENTS AND CONTINGENCIES

In addition to the non-interest bearing mortgage received from the sale of each home, Habitat receives a shared appreciation agreement. The shared appreciation agreement allows Habitat to collect the lowest independent appraised value as an additional amount upon the sale or refinance within 20 years of the original sale contract. The shared appreciation agreement payoff is considered less than probable or remote and therefore no receivable has been recorded in the financial statements.

13. CONCENTRATION OF CREDIT RISK

The Organization maintains its cash and cash equivalents balances in local financial institutions. All accounts for a single depositor are insured by the Federal Deposits Insurance Corporation up to \$250,000. The Organization had uninsured cash balances of \$99,980 as of June 30, 2015. The Organization had no uninsured cash balances as of June 30, 2014.

Habitat’s programs are concentrated in the northern portion of Collin County. The Organization receives donations, home sales and collection of mortgage receivables in this area. Changes in economic conditions may impact the Organization.

The Organization’s purpose is to provide housing for low-income homeowners. As such, it is likely that the mortgage holders would be unable to qualify for a mortgage from a traditional financial institution. This poses an inherent risk to Habitat that the mortgages receivable will be partially uncollectible. To mitigate the risk of overstating the ability of the Organization to fully collect the mortgages, the notes receivable have been discounted using the prevailing market rate for low-income housing at the inception of the note. Additionally, all notes receivable are collateralized by the real estate associated with the mortgage.

14. ADVERTISING

Habitat uses advertising to promote its program. Advertising expenses are expensed as incurred. For the years ended June 30, 2015 and 2014, advertising expenses of \$36,194 and \$38,936 were incurred, respectively.

15. TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat annually remits 10% of its unrestricted contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2015 and 2014, Habitat contributed \$20,000, each year, to Habitat International. In addition to these unrestricted contributions to Habitat International, Habitat also paid a support fee in the amount of \$10,000 for the year ended June 30, 2015 and \$5,000 for the year ended June 30, 2014.

16. RECLASSIFICATIONS

Certain reclassifications of prior period amounts have been made, where appropriate, to reflect comparable operating results.

17. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 17, 2015, the issuance date of the report. No subsequent events requiring disclosure were noted.