

**NORTH COLLIN COUNTY
HABITAT FOR HUMANITY**

FINANCIAL STATEMENTS

**FOR THE YEARS ENDED
JUNE 30, 2016 AND 2015**

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, 2016 and 2015, 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, 2016 and 2015, 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, 2015 financial statements, and our report dated September 17, 2015, 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 14, 2016

FINANCIAL STATEMENTS

NORTH COLLIN COUNTY HABITAT FOR HUMANITY
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2016 AND 2015

	2016	2015
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 103,921	\$ 125,363
Temporarily restricted cash	134,884	191,869
Contributions receivable	247,454	268,319
Inventory	268,523	186,734
Inventories - land held for development	333,201	175,426
Non-interest bearing mortgages receivable, current portion (net of discount)	170,791	158,166
TDHCA Boot Strap agency receivables, current portion	61,438	61,438
Other receivables	<u>30,615</u>	<u>22,815</u>
Total Current Assets	<u>1,350,827</u>	<u>1,190,130</u>
LONG-TERM ASSETS		
Property, furniture and equipment (net)	1,470,752	1,521,359
Contributions receivable	84,000	25,000
Non-interest bearing mortgages receivable, long-term portion (net of discount)	2,037,266	1,954,415
TDHCA Boot Strap agency receivables, long-term portion	862,569	923,897
HBA agency receivable	15,250	16,250
Discount on non-interest bearing mortgage	(1,113,567)	(1,066,779)
Construction in progress	<u>226,438</u>	<u>163,083</u>
Total Long-term Assets	<u>3,582,708</u>	<u>3,537,225</u>
Total Assets	<u>\$ 4,933,535</u>	<u>\$ 4,727,355</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 53,982	\$ 85,856
Escrow-mortgage holders	75,012	69,717
Due to ReStore	74,661	48,086
Due to TDHCA Boot Strap, current portion	61,438	61,438
Notes payable, current portion (net of discount)	<u>88,674</u>	<u>132,968</u>
Total Current Liabilities	<u>353,767</u>	<u>398,065</u>
LONG-TERM LIABILITIES		
Due to TDHCA Bootstrap, long-term portion	863,590	924,465
Due to HBA	10,667	12,667
Notes payable, long-term portion (net of discount)	<u>1,229,638</u>	<u>1,293,299</u>
Total Long-term Liabilities	<u>2,103,895</u>	<u>2,230,431</u>
Total Liabilities	<u>2,457,662</u>	<u>2,628,496</u>
NET ASSETS		
Unrestricted	1,639,620	1,432,181
Temporarily restricted	<u>836,253</u>	<u>666,678</u>
Total Net Assets	<u>2,475,873</u>	<u>2,098,859</u>
Total Liabilities and Net Assets	<u>\$ 4,933,535</u>	<u>\$ 4,727,355</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, 2016

(With Summarized Financial Information for the Year Ended June 30, 2015)

	Unrestricted	Temporarily Restricted	Permanently Restricted	2016 Total	2015 Total
REVENUE AND OTHER SUPPORT					
Grants	\$ -	\$ 369,662	\$ -	\$ 369,662	\$ 261,495
Contributions	48,870	302,092	-	350,962	499,618
Contributions - non cash	172,009	-	-	172,009	58,136
Donated materials	814,803	-	-	814,803	491,550
Discount amortization	100,224	-	-	100,224	75,925
Transfers to homeowners	387,325	-	-	387,325	429,854
ReStore sales	1,241,251	-	-	1,241,251	1,110,226
Special events, net of expenses	38,845	-	-	38,845	18,993
Miscellaneous	38,183	-	-	38,183	49,603
Interest income	516	-	-	516	486
Net assets released from restrictions	502,179	(502,179)	-	-	-
Total Revenue and Other Support	<u>3,344,205</u>	<u>169,575</u>	<u>-</u>	<u>3,513,780</u>	<u>2,995,886</u>
EXPENSES					
Home ownership program	1,417,765	-	-	1,417,765	1,345,517
ReStore program	1,554,373	-	-	1,554,373	1,437,493
Management and administrative	164,628	-	-	164,628	132,444
Total Expenses	<u>3,136,766</u>	<u>-</u>	<u>-</u>	<u>3,136,766</u>	<u>2,915,454</u>
OTHER INCOME/(EXPENSES)					
Gain (Loss) on disposition of assets	-	-	-	-	(519)
CHANGE IN NET ASSETS					
	207,439	169,575	-	377,014	79,913
NET ASSETS, BEGINNING OF YEAR					
	<u>1,432,181</u>	<u>666,678</u>	<u>-</u>	<u>2,098,859</u>	<u>2,018,946</u>
NET ASSETS, END OF YEAR					
	<u>\$ 1,639,620</u>	<u>\$ 836,253</u>	<u>\$ -</u>	<u>\$ 2,475,873</u>	<u>\$ 2,098,859</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, 2016 AND 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ 377,014	\$ 79,913
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation expense	88,877	83,805
Discount amortization-mortgages	46,788	48,734
Transfer to homeowners	(387,325)	(429,854)
Loss on the disposal of assets	-	519
Effect of changes in assets and liabilities:		
(Increase) decrease in inventories - (lots)	(157,775)	28,147
(Increase) decrease in inventories - (resale)	(81,789)	6,797
(Increase) decrease in contributions receivable	(38,135)	68,565
(Increase) decrease in agency receivable	(547)	(998)
(Increase) decrease in other receivables	(7,800)	(22,500)
(Increase) decrease in homes under construction	(63,355)	111,740
Increase (decrease) in accounts payable and accrued expenses	(4)	3,536
Net Cash Used by Operating Activities	(224,051)	(21,596)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of land, building and equipment	(38,270)	(49,279)
Net loan proceeds	(107,955)	(77,188)
Mortgage payments received	291,849	328,190
Net Cash Provided by Investing Activities	145,624	201,723
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(78,427)	180,127
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	317,232	137,105
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 238,805	\$ 317,232
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION		
Issuance of non-interest bearing mortgage loans	\$ 387,325	\$ 429,854
Discount on non-interest bearing mortgages loans	(147,009)	(124,659)
Transfers to homeowners subject to non-interest bearing mortgage loans	\$ 240,316	\$ 305,195
Cash paid for interest	\$ 36,560	\$ 61,304

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, 2016

	<u>Program Services</u>		<u>Support Services</u>	<u>Total</u>
	<u>Home Ownership</u>	<u>ReStore</u>	<u>Management and Administrative</u>	<u>2016</u>
Bad debt expense	\$ 2,036	\$ -	\$ -	\$ 2,036
Bank charges	450	150	400	1,000
Contract labor	9,397	11,355	2,181	22,933
Credit card fees	-	-	1,053	1,053
Depreciation expense	13,510	68,103	7,264	88,877
Dues and subscriptions	3,364	827	2,295	6,486
Equipment rental	5,563	3,133	1,701	10,397
Fleet Expense	8,977	22,405	658	32,040
Insurance	11,919	22,959	1,617	36,495
Interest expense	14,343	20,178	2,039	36,560
Materials and supplies	564,752	929,019	21,431	1,515,202
Miscellaneous	510	1,257	2,396	4,163
Mortgage discount	147,009	-	-	147,009
Office expenses	1,378	6,440	6,159	13,977
Postage	6,131	334	1,926	8,391
Printing, promotions, and advertising	24,810	27,058	7,419	59,287
Professional fees	3,406	1,135	3,028	7,569
Program expenses	112,282	290	-	112,572
Repairs & Maintenance	1,799	11,984	1,472	15,255
Salaries and benefits	421,246	377,582	94,551	893,379
Telephone	9,069	9,241	1,390	19,700
Tithe/ SOSI fee	41,000	-	-	41,000
Travel	2,854	1,476	3,849	8,179
Utilities	11,960	39,447	1,799	53,206
Total Expenses	\$ 1,417,765	\$ 1,554,373	\$ 164,628	\$ 3,136,766

See accompanying independent auditor's report.

NORTH COLLIN COUNTY HABITAT FOR HUMANITY

SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	Program Services		Support Services	Total
	Home Ownership	ReStore	Management and Administrative	2015
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, promotion, 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/ SOSI fee	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				

See accompanying independent auditor's report.

NORTH COLLIN COUNTY HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. ORGANIZATION

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. The Organization has no permanently restricted net assets as of June 30, 2016 and 2015.

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 \$134,884 and \$191,869 of cash for purposes of renovations for the years ended June 30, 2016 and 2015, 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. The Organization's significant estimates include the useful lives of property and equipment, the market value of donated inventory, and the amortization of discounts on mortgage loans based on the estimated life of the notes as a method that approximates the effective interest rates.

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 2016 and 2015.

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 2013.

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.

Allocation of Functional Expenses

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, 2015, 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, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2016</u>
Land	\$ 253,847	\$ -	\$ -	\$ 253,847
Buildings and improvements	1,274,411	6,281	(2,887)	1,277,805
Furniture and fixtures	101,753	-	-	101,753
Vehicles and trailers	89,813	34,876	-	124,689
Machinery and equipment	<u>149,491</u>	<u>-</u>	<u>-</u>	<u>149,491</u>
	1,869,315	41,157	(2,887)	1,907,585
Less accumulated depreciation	<u>(347,956)</u>	<u>(88,877)</u>	<u>-</u>	<u>(436,833)</u>
Total property and equipment, net depreciation	<u>\$ 1,521,359</u>	<u>\$ (47,720)</u>	<u>\$ (2,887)</u>	<u>\$ 1,470,752</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$88,877 and \$83,805, 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, 2016</u>		<u>June 30, 2015</u>	
	<u>Homes</u>	<u>Cost</u>	<u>Homes</u>	<u>Cost</u>
Homes under construction at beginning of year	5	\$ 163,083	6	\$ 274,823
Additional cost incurred during the year	-	318,713	-	188,184
New homes started during the year	7	226,438	5	165,404
Homes transferred during the year	<u>(5)</u>	<u>(481,796)</u>	<u>(7)</u>	<u>(465,328)</u>
Homes under construction at year-end	<u>7</u>	<u>\$ 226,438</u>	<u>5</u>	<u>\$ 163,083</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 \$333,201 and \$175,426 as of June 30, 2016 and 2015, 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 on the date of donation, with the fair market value being recorded as the asset, and the remainder is immediately recognized as contribution expense. The balance of inventory totaled \$268,523 and \$186,734 as of June 30, 2016 and 2015, respectively.

6. SALES TO HOMEOWNERS

During the years ended June 30, 2016 and 2015, five and seven 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 2015 were 7.48% and 7.51%, respectively. The discounts totaled \$147,009 for 2016 and \$124,659 for 2015.

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, 2016 and 2015 are as follows:

	<u>2016</u>	<u>2015</u>
Mortgages receivable (at face value)	\$ 2,208,057	\$ 2,112,581
Unamortized discount on mortgages	<u>(1,113,567)</u>	<u>(1,066,779)</u>
Mortgages receivable, net of discount	<u>\$ 1,094,490</u>	<u>\$ 1,045,802</u>

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

2017	\$ 170,791
2018	170,791
2019	170,791
2020	170,791
2021	170,791
Thereafter	<u>240,535</u>
Total	<u>\$ 1,094,490</u>

Mortgages are considered delinquent when the monthly mortgage payment is at least 31 days past due. As of June 30, 2016, nineteen mortgages totaling \$8,144 were past due. As of June 30, 2015, nineteen mortgages totaling \$10,466 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, 2016, the balance in the agency receivables is \$924,007 and agency payables account is \$925,028. The balances of the agency receivable and payable as of June 30, 2015, the balance in the agency receivables is \$985,335 and agency payables account is \$985,903. 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, 2016, the balances of the agency receivable and payable were \$15,250 and \$10,667, respectively. As of June 30, 2015, the balances of the agency receivable and payable were \$16,250 and \$12,667, respectively.

8. LONG-TERM DEBT

Long-term debt, net of discounts, consists of the following notes as of June 30, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Notes payable to Texas Department of Housing and Community Affairs (TDHCA) in the original amounts of \$1,685,456 and \$1,426,456 as of June 30, 2016 and 2015, respectively, bearing interest ranging from 0% to 4%, discount calculated based on a hypothetical imputed interest rate ranging between 7.39% and 8.34%, the rate provided annually by Habitat for Humanity International, resulting in a discount of \$499,821 and \$456,161, as of June 30, 2016 and 2015, respectively. The Organization remits monthly payments of \$7,056 and the loans mature July 2021 through August 2046.	\$ 282,341	\$ 879,773
Note payable to a bank; interest rate of 5.25%; due May 25, 2026. Secured by land and building.	1,031,971	537,769
Note payable to a vehicle financing company; interest rate of 1.90% due June 14, 2017. Secured by the associated vehicle.	<u>4,000</u>	<u>8,725</u>
Total outstanding balance	1,318,312	1,426,267
Less current installments	<u>(88,674)</u>	<u>(132,968)</u>
Total long-term debt	<u>\$ 1,229,638</u>	<u>\$ 1,293,299</u>

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

2017	\$ 88,674
2018	87,632
2019	90,708
2020	156,923
2021	154,131
Thereafter	<u>740,244</u>
Total	<u>\$ 1,318,312</u>

9. 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, 2016 was \$172,009 and \$58,136 in 2015.

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.

10. RESTRICTED NET ASSETS

Temporarily restricted net assets consisted of the following:

	<u>2016</u>	<u>2015</u>
Temporarily restricted		
Contributions Temporarily Restricted	<u>\$ 836,253</u>	<u>\$ 666,678</u>

11. 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.

12. 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 \$67,126 as of June 30, 2016. The Organization had uninsured cash balances of \$99,980 as of June 30, 2015.

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.

13. ADVERTISING

Habitat uses advertising to promote its program. Advertising expenses are expensed as incurred. For the years ended June 30, 2016 and 2015, advertising expenses of \$59,287 and \$36,194 were incurred, respectively.

14. 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, 2016 and 2015, Habitat contributed \$26,000 and \$20,000 to Habitat International, respectively. In addition to these unrestricted contributions to Habitat International, Habitat also paid a support fee in the amount of \$15,000 for the year ended June 30, 2016 and \$10,000 for the year ended June 30, 2015.

15. RECLASSIFICATIONS

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

16. SUBSEQUENT EVENTS

Subsequent events have been evaluated through September 14, 2016, the issuance date of the report. No subsequent events requiring disclosure were noted.