

**HABITAT FOR HUMANITY OF
GREATER GARLAND, INC.**

FINANCIAL STATEMENTS

December 31, 2015

HABITAT FOR HUMANITY OF GREATER GARLAND, INC.

FINANCIAL STATEMENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Greater Garland, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Greater Garland, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2015, and the related statements of activities, cash flows and functional expenses 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

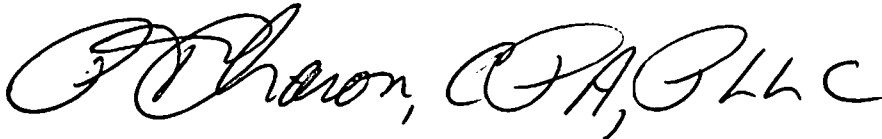
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about 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 Greater Garland, Inc. as of December 31, 2015, and the change in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

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

Philip T Charon, CPA, PLLC
Colleyville, Texas

April 7, 2016

Habitat for Humanity of Greater Garland, Inc.
Statements of Financial Position
As of December 31, 2015

ASSETS

Current Assets	
Cash and Cash Equivalents - Unrestricted	\$ 104,026
Cash and Cash Equivalents - Escrow and Repair Funds - Temporarily Restricted	71,347
Grants Receivable	7,500
Other Receivables	322
ReStore Purchased Inventory, at Cost	3,805
ReStore Donated Inventory, at Fair Value	96,951
Inventory - Construction Materials	2,900
Current Portion of Non-Interest Bearing Mortgages Receivable	113,769
Prepays	5,164
Other - Temporarily Restricted	5,000
Construction in Progress	250,455
Total Current Assets	<u>661,239</u>
Property and Equipment	
Property and Equipment, Net of Accumulated Depreciation of \$60,315	152,688
Other Assets	
Deposits	15,333
Land Held for Development	9,037
Non-Interest Bearing Long-Term Mortgages Receivable, Net of Discount, (Less Current Portion)	764,010
Total Other Assets	<u>788,380</u>
TOTAL ASSETS	<u>\$ 1,602,307</u>

LIABILITIES AND NET ASSETS

Current Liabilities	
Accounts Payable	\$ 20,961
Deferred Revenue - Interim Construction Loans (CHDO)	83,876
Accrued Payroll and Payroll Taxes	15,574
Homeowner Escrow Fund	37,315
Homeowner Repair Fund	32,984
Line of Credit	30,466
Note Payable - Current Portion	29,791
Non-Interest Bearing Note Payable, Net of Discount - Current Portion	1,296
Other	(119)
Total Current Liabilities	<u>252,144</u>
Long-Term Liabilities	
Note Payable	98,505
Non-Interest Bearing Note Payable, Net of Discount, (Less Current Portion)	12,874
Total Long-Term Liabilities	<u>111,379</u>
Total Liabilities	<u>363,523</u>
Net Assets	
Unrestricted	1,162,437
Temporarily Restricted	76,347
Permanently Restricted	-
Total Net Assets	<u>1,238,784</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 1,602,307</u>

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

Habitat for Humanity of Greater Garland, Inc.
Statement of Activities
For the Year Ended December 31, 2015

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Contributions and Grants				
Contributions	\$ 22,324	\$ 5,970	\$ -	\$ 28,294
Grants	57,799	38,789	-	96,588
CHDO Partnership Program Funds	-	50,000	-	50,000
Sale of Completed Home	43,159	-	-	43,159
Amortization of Discount on Non-Interest Bearing				
Bearing Mortgages Receivable	60,279	-	-	60,279
Interest Income	1,197	-	-	1,197
ReStore Revenue	219,227	-	-	219,227
Events Revenue	26,145	-	-	26,145
In-Kind Contributions	53,540	-	-	53,540
In-Kind Contributions - ReStore	290,824	-	-	290,824
Dallas ReStore Income	16,132	-	-	16,132
Other	4,256	-	-	4,256
Gain (Loss) on Sale or Disposal of Fixed Assets	(1,024)	-	-	(1,024)
Net Assets Released from Restrictions	100,092	(100,092)	-	-
	<u>893,950</u>	<u>(5,333)</u>	<u>-</u>	<u>888,617</u>
Total Revenue and Public Support				
EXPENSES				
Program Services	796,561	-	-	796,561
Management and General	370,813	-	-	370,813
Fundraising	47,780	-	-	47,780
	<u>1,215,154</u>	<u>-</u>	<u>-</u>	<u>1,215,154</u>
Total Expenses				
CHANGE IN NET ASSETS	(321,204)	(5,333)	-	(326,537)
NET ASSETS AT BEGINNING OF YEAR	1,483,641	81,680	-	1,565,321
NET ASSETS AT END OF YEAR	\$ 1,162,437	\$ 76,347	\$ -	\$ 1,238,784
	<u>1,162,437</u>	<u>76,347</u>		

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

Habitat for Humanity of Greater Garland, Inc.
Statement of Cash Flows
As of December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES

Change in Net Assets	\$ (326,537)
Adjustments to reconcile change in net assets to net cash provided by (used for) operating activities:	
Transfers to Homeowners in Return for Mortgage Receivables	-
Discount on Current Year Non-Interest Bearing Mortgage Loans	-
Depreciation Expense	12,213
Amortization of Discount on Non-Interest Bearing Mortgages Receivable	(60,279)
Imputed Interest Expense from Non-Interest Bearing Mortgage Loans	861
(Gain) Loss from Sale or Disposal of Property & Equipment	1,024
Donated Land	(25,000)
(Increase) Decrease in Assets:	
Grants Receivable	(7,500)
Other Receivables	17,397
Inventory	(79,861)
Prepays	11,680
Other	(5,000)
Construction in Progress	(34,101)
Land Held for Development	(9,037)
ReStore Development Costs	61,670
Increase (Decrease) in Liabilities:	
Accounts Payable	(23,904)
Homeowner Escrow Fund Payable	18,266
Homeowner Repair Fund Payable	(29,647)
Accrued Payroll and Payroll Taxes	12,560
Deferred Revenues	21,196
Other	(119)

CASH PROVIDED BY (USED FOR) OPERATING ACTIVITIES **(444,118)**

CASH FLOWS FROM INVESTING ACTIVITIES

Non-Interest Bearing Mortgage Loan Payments Received	180,844
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CASH PROVIDED BY (USED FOR) INVESTING ACTIVITIES **180,844**

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

Habitat for Humanity of Greater Garland, Inc.
Statement of Cash Flows (Continued)
As of December 31, 2015

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on BootStrap Loans - See Note 4	(1,833)
Proceeds from Line of Credit	30,000
Payments on Line of Credit	-
Proceeds from Note Payable	133,056
Principle payments on Note Payable	(2,035)
Principle payments on Non-Interest Bearing Note Payable	(2,084)

CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	<u>157,104</u>
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NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(106,170)
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CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>281,543</u>
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CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 175,373</u>
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SUPPLEMENTAL DISCLOSURES

Cash Paid During the Year for Interest Expense	<u>\$ 3,405</u>
In-Kind Contributions and Contributed Services	<u>\$ 344,364</u>

Non-cash Investing and Financing Activities:

Issuance of Non-Interest Bearing Mortgage Loans	<u>\$ -</u>
Discount on Non-Interest Bearing Mortgage Loans	<u>\$ -</u>
Transfers to Homeowners Subject to Non-Interest Bearing Mortgage Loans	<u>\$ -</u>

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

Habitat for Humanity of Greater Garland, Inc.
Statement of Functional Expenses
For the Year Ended December 31, 2015

	Program Services	Management & General	Fundraising	Total
Salaries	\$ 58,051	\$ 272,678	\$ 37,361	\$ 368,090
Payroll Taxes	5,136	26,326	2,830	34,292
Employee Benefits	3,300	-	-	3,300
Total Salaries and Related Expenses	66,487	299,004	40,191	405,682
Automobile Expenses	13,710	-	-	13,710
Bank Fee	4	1,854	-	1,858
Commission Expense	2,385	-	-	2,385
Conferences & Training	6,474	3,086	-	9,560
Contractor	26,333	9,488	-	35,821
Cost of Goods Sold - Home Sales *	117,090	-	-	117,090
Cost of Goods Sold - ReStore *	223,032	-	-	223,032
Depreciation	9,160	3,053	-	12,213
Dues & Subscription	2,434	665	-	3,099
Family Selection	534	(25)	-	509
Gas & Mileage	8,418	293	-	8,711
Home Warranty	8,612	-	-	8,612
Insurance	18,966	5,673	-	24,639
Interest Expense	-	3,405	-	3,405
IT Support & Supplies *	10,206	3,402	-	13,608
Landscaping	225	-	-	225
Maintenance & Repair	3,894	4,100	-	7,994
Marketing	9,333	-	1,197	10,530
Meals & Entertainment	808	427	-	1,235
Merchant Service Fee	3,959	175	53	4,187
Miscellaneous	1,763	(398)	2,199	3,564
Occupancy	189,968	-	50	190,018
Office Supplies *	8,633	14,978	1,395	25,006
Postage	626	177	183	986
Printing	30	686	-	716
Professional Services	7,004	2,114	-	9,118
School House (United Way Grant)	3,738	-	-	3,738
Supplies	13,950	25	2,499	16,474
Habitat International Tithe	-	16,000	-	16,000
Taxes	15,094	-	-	15,094
Telecommunication	893	800	13	1,706
Tools *	364	-	-	364
Utilities	22,434	1,831	-	24,265
Total Expenses	\$ 796,561	\$ 370,813	\$ 47,780	\$ 1,215,154

* Amounts include In-Kind Contributed Services

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

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 1 – NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities, History and Organization:

Habitat for Humanity of Greater Garland, Inc. (“Habitat”), is a nonprofit corporation based in Garland, Texas incorporated on August 23, 1993. 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 250 to 350 hours of their time, “sweat equity”, to volunteer for Habitat and help build the homes. Habitat provides financing for the homes at an affordable interest rate, and at no profit to the organization. Monthly principal payments from families who buy homes from Habitat are added to the pool of resources used to build more homes for more families in need.

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

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

Housing Development:

Land Acquisition – Cultivating relationships with cities in the Greater Garland area of 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 Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 1 – (CONTINUED)

Families and Volunteers:

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

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

Significant Accounting Policies:

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

Basis of Accounting:

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

Basis of Presentation:

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

Net Asset Accounting:

As a nonprofit organization, Habitat for Humanity of Greater Garland, 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 Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 1 – (CONTINUED)

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

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

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

Statement of Cash Flows:

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

Cash and Cash Equivalents:

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

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 3 to 39 years. Habitat’s capitalization policy is to expense property and equipment purchases more than \$2,000. Repairs and maintenance are charged to expense as incurred.

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 1 – (CONTINUED)

ReStore Inventory:

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

Land Held for Development:

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

Revenue Recognition and Sales:

A home is considered sold when a formal closing transaction has been finalized. Homes are sold for amounts in accordance with the Home Pricing Policy adopted by the board of directors. Generally, multiple mortgage liens cover the sales price. One is a payable mortgage with terms based on the families' ability to pay. The second lien, while not currently payable, is forgiven over various years. If the family sells the home before the second lien is fully forgiven, the open balance at the time of the sale is payable to the lien holder. For the year ended December 31, 2015, one home was sold 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 for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 1 – (CONTINUED)

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.

Escrow and Repair Reserves:

Habitat services the mortgages on homes the Organization sells. Included in cash are amounts received by homeowners for insurance and property taxes (escrow funds) and repairs (repair funds). These amounts will be used to pay amounts as they become due. A corresponding liability is included in escrow fund payable and repair fund payable in the accompanying statement of financial position.

Contributions:

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

Donated Materials and Services:

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

Functional Allocation of Expenses:

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

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 1 – (CONTINUED)

Income Taxes:

Habitat for Humanity of Greater Garland, 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 year ended December 31, 2015.

Fair Value:

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

Compensated Absences:

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

Use of Estimates and General Assumptions:

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

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 2 – PROPERTY AND EQUIPMENT

Property and Equipment consists of the following at December 31, 2015:

	<u>2015</u>
Land	\$ 25,000
Building	120,069
Leasehold Improvements	34,431
Furniture, Fixtures and Equipment	33,503
Less: Accumulated Depreciation	<u>(60,315)</u>
Total Property and Equipment	<u>\$ 152,688</u>

Depreciation expense was \$12,213 for the year ended December 31, 2015.

NOTE 3 – MORTGAGE NOTES RECEIVABLE

A home is considered sold when a formal closing transaction has been finalized. Homes are sold for amounts in accordance with the Home Pricing Policy adopted by the board of directors. Generally, multiple mortgage liens cover the sales price. One is a payable mortgage with terms based on the families' ability to pay. The second lien, while not currently payable, is forgiven over various years. If the family sells the home before the second lien is fully forgiven, the open balance at the time of the sale is payable to the lien holder.

Habitat holds 57 mortgage notes receivable with maturity dates ranging from 10 to 30 years as of December 31, 2015. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. The payments collected on these notes are to help fund future home construction. The notes have been discounted at various rates ranging from 2.57% to 7.27% using the effective interest method over the lives of the mortgages. Mortgages are reported net of amortized cost.

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 3 – MORTGAGE NOTES RECEIVABLE (CONTINUED)

Payments due on mortgage notes receivable are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 113,769
2017	113,769
2018	113,769
2019	113,769
2020	113,769
Thereafter	<u>578,585</u>
Notes Receivable at Face Value	1,147,430
Less: Unamortized Discount	<u>(269,651)</u>
Net Present Value of Mortgages	877,779
Less: Current Portion	<u>(113,769)</u>
Long-term Portion	<u><u>\$ 764,010</u></u>

NOTE 4 – TDHCA “BOOTSTRAP” LOAN PROGRAM

The Texas Department of Housing and Community Affairs (“TDHCA”) “Bootstrap” Loan Program provides no-interest home mortgage loans up to \$45,000 to low income Texas families who agree to help build their own home and who are working through certified nonprofit organizations such as Habitat. This program uses funds administered through the State of Texas Housing Trust Fund. TDHCA has appointed Habitat as a servicer for “Bootstrap” loans. As a servicer, Habitat collects payments from the borrowers which consist of three parts, principal, escrow and repair. Habitat remits loan principal payments to TDHCA and retains the escrow and repair payments. As of December 31, 2015, Habitat, for the benefit of TDHCA, was servicing two loans issued by TDHCA, with a total outstanding balance of \$38,834.

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 5 – LINE OF CREDIT

The Company has a \$140,000 revolving line of credit with Veritex Community Bank. Interest on this line of credit is a floating rate equal to the prime rate. The line is secured by the land and building at 1110 Main Street. At December 31, 2015, there was an outstanding balance of \$30,466 on this revolving line of credit.

NOTE 6 – NOTES PAYABLE

Notes payable at December 31, 2015 consist of the following:

Promissory note to Northern Trust Bank in the amount of \$50,000 with a balance of \$18,043 on December 31, 2015. The unpaid principal amount is payable in monthly installments in the amount of \$330 with an interest rate of zero and a maturity date of September 1, 2024. The note is secured by the mortgage receivable for the property at 141 Rio Rita. The note has been discounted at a rate of 5.80% using the effective interest method over the life of the note. The note is reported net of unamortized discount. Payments due on this note are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 2,088
2017	2,088
2018	2,088
2019	2,088
2020	2,088
Thereafter	<u>7,603</u>
Note Payable at Face Value	18,043
Less: Unamortized Discount	<u>(3,873)</u>
Net Present Value of Note Payable	14,170
Less: Current Portion	<u>(2,088)</u>
Long-term Portion	<u><u>\$ 12,082</u></u>

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 6 – NOTES PAYABLE (CONTINUED)

Promissory note to Habitat for Humanity International, Inc. in the amount of \$134,400 with a balance of \$128,296 on December 31, 2015. The unpaid principal amount and interest is payable in quarterly installments in the amount of \$7,448 with an interest rate of 4.0% and a maturity date of September 30, 2020. The note is secured by 16 pledged mortgages. Payments due on this note are as follows:

<u>Year Ending December 31,</u>	
2016	\$ 29,791
2017	29,791
2018	29,791
2019	29,791
2020	9,132
Thereafter	<u>-</u>
Note Payable	128,296
Less: Current Portion	<u>(29,791)</u>
Long-term Portion	<u>\$ 98,505</u>

Interest expense on this note for the year ended December 31, 2015 was \$1,344.

NOTE 7 – DEFERRED REVENUE – INTERIM CONSTRUCTION LOANS (CHDO)

Habitat entered into agreements with the U.S. Department of Housing and Urban Development/CHDO and the City of Garland whereby interim construction loans of up to \$50,000 per home were made available to Habitat. The loans are non-interest bearing. As of December 31, 2014 HFHGG had \$83,876 in outstanding loans on the CHDO program. During 2015 \$71,196 was received in loans from Garland. At the closing of each home the City of Garland exchanges the construction loan liability for a mortgage note/real estate lien on the home. Habitat is then relieved from repayment of the loan. These funds are recorded as income titled CHDO Partnership Program Funds on the statement of activities upon the sale of the homes. During 2014 one home was closed and the transfer of the loans for mortgage notes to Garland was \$50,000. The mortgage notes/liens received by Garland are forgivable to the homeowners over various years and terms. If the home is sold before the full lien amount is forgiven, the balance due on the note is payable to the City of Garland.

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2015

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

There is \$76,347 of temporarily restricted net assets as of December 31, 2015.

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

There were no permanently restricted net assets as of December 31, 2015.

NOTE 10 – NET ASSETS RELEASED FROM RESTRICTIONS

There was \$100,092 of net assets that were released from donor restrictions by incurring expenses satisfying the restricted purpose of building homes specified by donors during the year ending December 31, 2015.

NOTE 11 – 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 2015, 2014, and 2013 are subject to examination by the IRS, generally for three years after they were filed.

NOTE 12 – IN-KIND CONTRIBUTIONS

Habitat received in-kind donations for various expenses throughout the year for use in both its new construction housing projects and for resale through the ReStore. The estimated values of such in-kind transactions are reflected in the statement of activities at their fair value and are recorded at the time of receipt and consist of the following for the year ended December 31, 2015.

	<u>2015</u>
ReStore Building Materials & Supplies	\$ 290,824
Constuction Materials	8,945
Land	25,000
Office Supplies	5,326
IT Support & Supplies	9,609
Other	4,660
	<u>\$ 344,364</u>

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NOTE 13 – DALLAS RESTORE INCOME

Dallas Area Habitat for Humanity (“Dallas Habitat”) operates a ReStore located in Garland, Texas. Habitat has an agreement with Dallas Habitat whereby Habitat receives \$1,000 per month representing territory rental payments plus 7.5% of the yearly net income of the store. For the year ended December 31, 2015 Dallas Restore Income was \$16,132.

NOTE 14 – RELATED PARTY TRANSACTION

During the year ended December 31, 2015, Habitat paid tithes to International of \$16,000. And dues to Habitat for Humanity Texas of \$1,500.

NOTE 15– COMMITMENTS AND CONTINGENCIES

Habitat leases retail space for Habitat’s ReStore under the terms of an operating lease. Lease expense related to retail space for the year ended December 31, 2015 was \$180,629.

Future minimum lease payments required under the lease at December 31, 2015 are as follows:

Year Ended June 30,	Amount
2016	\$ 125,090
2017	131,136
2018	137,184
2017	143,231
2018	111,044
Beyond	-
	<u>\$ 647,685</u>

Habitat has agreed to provide financing towards construction of homes to be built by the Garland Independent School District. The homes are built by the students of the high school on the property of the school. When the homes are finished they are moved to sites prepared by Habitat. The home at 501 Nona (school house) is under construction as of December 31, 2015. The GISD material costs for this home through December 31, 2015 are \$18,636 and are included in construction in process on the statement of financial condition.

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NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Level 3 Inputs – Instruments with primarily unobservable value drivers.

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

	2015			
	<u>Fair Value Measurements Using Inputs Noted Above</u>			
	Fair Value	Level 1	Level 2	Level 3
Cash and Cash Equivalents	175,373	175,373	-	-
Non-Interest Bearing				
Mortgages Receivable	1,147,430	-	-	1,147,430
Less: Unamortized Discount	<u>(269,651)</u>	<u>-</u>	<u>-</u>	<u>(269,651)</u>
Net	<u>877,779</u>	<u>-</u>	<u>-</u>	<u>877,779</u>
Total	<u>\$ 1,053,152</u>	<u>\$ 175,373</u>	<u>\$ -</u>	<u>\$ 877,779</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 calculated on the IRS’s AFR long-term rates , in effect on the date of the individual mortgage closing; (2) the discount is amortized using the effective interest method over the life of the mortgage; (3) mortgages receivable are valued based on the gross mortgage amount less discount and down payment received.

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NOTE 17 – SUBSEQUENT EVENTS

An evaluation of subsequent events was performed in accordance with ASC 855-10, *Subsequent Events*, through April 7, 2016 which is the date of the report. No material subsequent events were noted.