

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

FINANCIAL STATEMENTS

December 31, 2016 and 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, 2016 and 2015, and the related statements of activities, cash flows and 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 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, 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.

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

Frank W. Bonn, CPA, PLLC
Colleyville, Texas

March 12, 2018

Habitat for Humanity of Greater Garland, Inc.
Statements of Financial Position
As of December 31, 2016 and 2015

ASSETS

	2016	2015
Current Assets		
Cash & Cash Equivalents - Unrestricted	\$ 602,479	\$ 104,026
Cash & Cash Equivalents - Escrow & Repair Funds - Temporarily Restricted	4,045	71,347
Grants Receivable	2,147	7,500
Other Receivables	53,721	322
ReStore Purchased Inventory, at Cost	1,894	3,805
ReStore Donated Inventory, at Fair Value	43,695	96,951
Inventory - Construction Materials	7,141	2,900
Current Portion of Non-Interest Bearing Mortgages Receivable	42,356	113,769
Prepays	25,640	5,164
Other - Temporarily Restricted	-	5,000
Construction in Progress	83,825	250,455
Total Current Assets	866,943	661,239
Property and Equipment		
Property and Equipment, Net of Accumulated Depreciation of \$72,291 and 60,315	140,712	152,688
Other Assets		
Deposits	15,333	15,333
Land Held for Development	23,755	9,037
Non-Interest Bearing Long-Term Mortgages Receivable, Net of Discount, (Less Current Portion)	266,905	764,010
Total Other Assets	305,993	788,380
TOTAL ASSETS	\$ 1,313,648	\$ 1,602,307

LIABILITIES AND NET ASSETS

Current Liabilities		
Accounts Payable	\$ 10,887	\$ 20,961
Deferred Revenue - Interim Construction Loans (CHDO)	11,918	83,876
Deferred Revenue - Rent	9,603	-
Accrued Payroll and Payroll Taxes	17,255	15,574
Accrued Expenses	(6,315)	-
Homeowner Escrow Fund	4,045	37,315
Homeowner Repair Fund	-	32,984
Line of Credit	-	30,466
Note Payable - Current Portion	26,048	29,791
Non-Interest Bearing Note Payable, Net of Discount - Current Portion	1,367	1,296
Other	18,158	(119)
Total Current Liabilities	92,966	252,144
Long-Term Liabilities		
Note Payable	77,216	98,505
Non-Interest Bearing Note Payable, Net of Discount, (Less Current Portion)	11,617	12,874
Total Long-Term Liabilities	88,833	111,379
Total Liabilities	181,799	363,523
Net Assets		
Unrestricted	1,127,804	1,162,437
Temporarily Restricted	4,045	76,347
Permanently Restricted	-	-
Total Net Assets	1,131,849	1,238,784
TOTAL LIABILITIES AND NET ASSETS	\$ 1,313,648	\$ 1,602,307

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, 2016

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUE AND PUBLIC SUPPORT				
Contributions and Grants				
Contributions	\$ 109,510	\$ 48,900	\$ -	\$ 158,410
Grants	21,600	42,567	-	64,167
CHDO Partnership Program Funds	-	-	-	-
Sale of Completed Home	296,721	-	-	296,721
Amortization of Discount on Non-Interest Bearing Bearing Mortgages Receivable	199,512	-	-	199,512
Interest Income	1,092	-	-	1,092
ReStore Revenue	280,764	-	-	280,764
Events Revenue	36,189	-	-	36,189
In-Kind Contributions	208,178	-	-	208,178
In-Kind Contributions - ReStore	219,767	-	-	219,767
Dallas ReStore Income	15,824	-	-	15,824
Other	10,669	-	-	10,669
Gain (Loss) on Sale or Disposal of Assets	(118,437)	-	-	(118,437)
Net Assets Released from Restrictions	163,769	(163,769)	-	-
Total Revenue and Public Support	1,445,158	(72,302)	-	1,372,856
EXPENSES				
Program Services	1,128,277	-	-	1,128,277
Management and General	153,393	-	-	153,393
Fundraising	198,121	-	-	198,121
Total Expenses	1,479,791	-	-	1,479,791
CHANGE IN NET ASSETS	(34,633)	(72,302)	-	(106,935)
NET ASSETS AT BEGINNING OF YEAR	1,162,437	76,347	-	1,238,784
NET ASSETS AT END OF YEAR	\$ 1,127,804	\$ 4,045	\$ -	\$ 1,131,849

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)	-	-
Total Revenue and Public Support	893,950	(5,333)	-	888,617
EXPENSES				
Program Services	796,561	-	-	796,561
Management and General	370,813	-	-	370,813
Fundraising	47,780	-	-	47,780
Total Expenses	1,215,154	-	-	1,215,154
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

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, 2016 and 2015

	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ (106,935)	\$ (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	(16,183)	-
Discount on Current Year Non-Interest Bearing Mortgage Loans	3,606	-
Depreciation Expense	11,976	12,213
Amortization of Discount on Non-Interest Bearing Mortgages Receivable	(199,512)	(60,279)
Imputed Interest Expense from Non-Interest Bearing Mortgage Loans	725	861
(Gain) Loss from Sale or Disposal of Property & Equipment	127,428	1,024
Donated Land	-	(25,000)
(Increase) Decrease in Assets:		
Grants Receivable	5,353	(7,500)
Other Receivables	(53,399)	17,397
Inventory	(50,926)	(79,861)
Prepays	(20,476)	11,680
Other	5,000	(5,000)
Construction in Progress	166,630	(34,101)
Land Held for Development	(14,718)	(9,037)
ReStore Development Costs	-	61,670
Increase (Decrease) in Liabilities:		
Accounts Payable	(10,074)	(23,904)
Homeowner Escrow Fund Payable	(33,270)	18,266
Homeowner Repair Fund Payable	(32,984)	(29,647)
Accrued Expenses	(6,315)	-
Accrued Payroll and Payroll Taxes	1,681	12,560
Deferred Revenues	(62,355)	21,196
Other	18,277	(119)
CASH USED FOR OPERATING ACTIVITIES	(266,471)	(444,118)
CASH FLOWS FROM INVESTING ACTIVITIES		
Non-Interest Bearing Mortgage Loan Payments Received	101,318	180,844
Purchase of Investments	-	-
Proceeds from Sale or Disposal of Property & Equipment	704,806	-
Purchase of Property and Equipment	-	-
CASH PROVIDED BY INVESTING ACTIVITIES	806,124	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, 2016 and 2015

CASH FLOWS FROM FINANCING ACTIVITIES

Payments on BootStrap Loans - See Note 4	(38,834)	(1,833)
Proceeds from Line of Credit	-	30,000
Payments on Line of Credit	(30,466)	-
Proceeds from Note Payable	-	133,056
Principle payments on Note Payable	(25,032)	(2,035)
Principle payments on Non-Interest Bearing Note Payable	<u>(14,170)</u>	<u>(2,084)</u>
 CASH PROVIDED BY (USED FOR) FINANCING ACTIVITIES	 <u>(108,502)</u>	 <u>157,104</u>
 NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	 431,151	 (106,170)
 CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	 <u>175,373</u>	 <u>281,543</u>
 CASH AND CASH EQUIVALENTS AT END OF YEAR	 <u><u>\$ 606,524</u></u>	 <u><u>\$ 175,373</u></u>

SUPPLEMENTAL DISCLOSURES

Cash Paid During the Year for Interest Expense	<u>\$ 11,844</u>	<u>\$ 3,405</u>
In-Kind Contributions and Contributed Services	<u>\$ 427,945</u>	<u>\$ 344,364</u>
 Non-cash Investing and Financing Activities:		
Issuance of Non-Interest Bearing Mortgage Loans	<u>\$ 16,183</u>	<u>\$ -</u>
Discount on Non-Interest Bearing Mortgage Loans	<u>\$ (3,606)</u>	<u>\$ -</u>
Transfers to Homeowners Subject to Non-Interest Bearing Mortgage Loans	<u>\$ -</u>	<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, 2016

	Program Services	Management & General	Fundraising	Total
Salaries	\$ 216,742	\$ 86,512	\$ 15,000	\$ 318,254
Payroll Taxes	18,750	7,484	1,297	27,531
Retirement Contributions	-	-	-	-
Employee Benefits	-	-	-	-
Total Salaries and Related Expenses	<u>235,492</u>	<u>93,996</u>	<u>16,297</u>	<u>345,785</u>
Automobile Expenses	4,618	-	-	4,618
Bank Fee	146	933	-	1,079
Commission Expense	120	-	-	120
Conferences & Training	1,031	1,744	506	3,281
Contractor	-	-	-	-
Cost of Goods Sold - Home Sales *	267,434	-	-	267,434
Cost of Goods Sold - ReStore *	280,764	-	-	280,764
Depreciation	7,608	2,184	2,184	11,976
Dues & Subscription	1,091	867	2,093	4,051
Event Expenses	-	-	114,109	114,109
Family Selection	3,395	-	-	3,395
Gas & Mileage	3,643	633	298	4,574
Home Warranty	4,143	-	-	4,143
Insurance	13,585	5,684	5,684	24,953
Interest Expense	-	11,844	-	11,844
IT Support & Supplies *	656	1,629	545	2,830
Landscaping	-	-	-	-
Maintenance & Repair	5,462	6,666	533	12,661
Marketing	15,353	14,709	8,065	38,127
Meals & Entertainment	2,011	830	380	3,221
Merchant Service Fee	5,633	266	143	6,042
Miscellaneous	(1,155)	587	(3)	(571)
Occupancy	180,309	-	-	180,309
Office Supplies *	718	1,452	25	2,195
Postage	426	470	1,215	2,111
Printing	1,886	889	15,999	18,774
Professional Services	19,897	3,765	3,582	27,244
School House (United Way Grant)	2,483	-	-	2,483
Supplies	11,038	-	117	11,155
Habitat International Tithe	-	-	23,000	23,000
Taxes	22,791	17	-	22,808
Telecommunication	5,645	2,596	1,751	9,992
Tools *	13,448	-	-	13,448
Utilities	18,606	1,632	1,598	21,836
Total Expenses	<u>\$ 1,128,277</u>	<u>\$ 153,393</u>	<u>\$ 198,121</u>	<u>\$ 1,479,791</u>

* Amounts include In-Kind Contributed Services

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
Retirement Contributions	-	-	-	-
Employee Benefits	3,300	-	-	3,300
Total Salaries and Related Expenses	<u>66,487</u>	<u>299,004</u>	<u>40,191</u>	<u>405,682</u>
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	<u>\$ 796,561</u>	<u>\$ 370,813</u>	<u>\$ 47,780</u>	<u>\$ 1,215,154</u>

* 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, 2016 and 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, 2016 and 2015

NOTE 1 – (CONTINUED)

Families and Volunteers:

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

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

Significant Accounting Policies:

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

Basis of Accounting:

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

Basis of Presentation:

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

Net Asset Accounting:

As a nonprofit organization, Habitat for Humanity of 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, 2016 and 2015

NOTE 1 – (CONTINUED)

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

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

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

Statement of Cash Flows:

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

Cash and Cash Equivalents:

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

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, 2016 and 2015

NOTE 1 – (CONTINUED)

ReStore Inventory:

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

Land Held for Development:

Land held for development represents the carrying value of lots owned by Habitat which may be the site of future home construction. The carrying value of land held for development is cost, or if donated, the fair value at the time of the donation. Upon the sale of the home to the homeowner, the land held for development is recognized as 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 years ended December 31, 2016 and 2015, three and one homes were sold by Habitat, respectively.

Mortgages Receivable:

Mortgages Receivable consists of non-interest bearing mortgage notes, 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, 2016 and 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, 2016 and 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, 2016.

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, 2016 and 2015

NOTE 2 – PROPERTY AND EQUIPMENT

Property and Equipment consists of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Land	\$ 25,000	\$ 25,000
Building	120,069	120,069
Leasehold Improvements	34,431	34,431
Furniture, Fixtures and Equipment	33,503	33,503
Less: Accumulated Depreciation	<u>(72,291)</u>	<u>(60,315)</u>
Total Property and Equipment	<u>\$ 140,712</u>	<u>\$ 152,688</u>

Depreciation expense was \$11,976 and 12,213 for the years ended December 31, 2016 and 2015, respectively.

NOTE 3 – MORTGAGE NOTES RECEIVABLE

A home is considered sold when a formal closing transaction has been finalized. Homes are sold for 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 22 and 57 mortgage notes receivable with maturity dates ranging from 10 to 30 years as of December 31, 2016 and 2015, respectively. 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, 2016 and 2015

NOTE 3 – MORTGAGE NOTES RECEIVABLE (CONTINUED)

Payments due on mortgage notes receivable are as follows:

<u>Year Ending December 31,</u>		
2016	\$	42,356
2017		42,356
2018		42,356
2019		42,356
2020		42,356
Thereafter		<u>184,543</u>
Notes Receivable at Face Value		396,323
Less: Unamortized Discount		<u>(87,062)</u>
Net Present Value of Mortgages		309,261
Less: Current Portion		<u>(42,356)</u>
Long-term Portion	\$	<u>266,905</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, 2016 and 2015, Habitat, for the benefit of TDHCA, was servicing 2 and two loans issued by TDHCA, with a total outstanding balance of \$36,834 and \$38,834, respectively.

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2016 and 2015

NOTE 5 – LINE OF CREDIT

The Company has a \$140,000 revolving line of credit with Veritex Community Bank on December 31, 2016 and 2015. 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, 2016 and 2015, there was an outstanding balance of \$0 and \$30,466, respectively, on this revolving line of credit.

NOTE 6 –NOTES PAYABLE

Notes payable at December 31, 2016 consists of two promissory notes following:

A promissory note to Northern Trust Bank in the amount of \$50,000 with a balance of \$16,133 and \$18,043 on December 31, 2016 and 2015, respectively. 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>		
2017	\$	2,084
2018		2,084
2019		2,084
2020		2,084
2021		2,084
Thereafter		<u>5,713</u>
Note Payable at Face Value		16,133
Less: Unamortized Discount		<u>(3,149)</u>
Net Present Value of Note Payable		12,984
Less: Current Portion		<u>(1,367)</u>
Long-term Portion	\$	<u><u>11,617</u></u>

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
December 31, 2016 and 2015

NOTE 6 –NOTES PAYABLE (CONTINUED)

Promissory note to Habitat for Humanity International, Inc. in the amount of \$134,400 with a balance of \$103,264 and \$128,296 on December 31, 2016 and 2015, respectively. 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>		
2017	\$	29,791
2018		29,791
2019		29,791
2020		9,132
Thereafter		<u>-</u>
Note Payable		103,264
Less: Current Portion		<u>(26,048)</u>
Long-term Portion	\$	<u><u>77,216</u></u>

Interest expense on this note for the year ended December 31, 2016 and 2015 was \$609 and \$399, respectively.

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

Habitat occasionally enters 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 are made available to Habitat. The loans are non-interest bearing. As of December 31, 2016, and 2015 HFHGG had \$11,918 and \$83,876 in outstanding loans on the CHDO program. During 2016 \$71,958 of payments were 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 2016 no homes were closed and during 2015 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, 2016 and 2015

NOTE 8 – TEMPORARILY RESTRICTED NET ASSETS

There were \$4,045 and \$76,347 of temporarily restricted net assets as of December 31, 2016 and 2015, respectively.

NOTE 9 – PERMANENTLY RESTRICTED NET ASSETS

There were no permanently restricted net assets as of December 31, 2016.

NOTE 10 – NET ASSETS RELEASED FROM RESTRICTIONS

There was \$163,769 and \$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 years ending December 31, 2016 and 2015, respectively.

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 2016, 2015, and 2014 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 years ended December 31, 2016 and 2015, respectively.

	<u>2016</u>	<u>2015</u>
ReStore Building Materials & Supplies	\$ 219,767	\$ 290,824
Constuction Materials	73,076	8,945
Land	-	25,000
Office Supplies and Support	95,052	5,326
Professional Services	40,050	9,609
Other	-	4,660
	<u>\$ 427,945</u>	<u>\$ 344,364</u>

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
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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 years ended December 31, 2016 and 2015 Dallas Restore Income was \$15,824 and \$16,132, respectively.

NOTE 14 – RELATED PARTY TRANSACTION

During the years ended December 31, 2016 and 2015, Habitat paid tithes to International of \$23,000 and \$16,000, respectively and dues to Habitat for Humanity Texas of \$1,500 and \$1,500, respectively.

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, 2016 and 2015 was \$175,236 and \$180,236,629, respectively.

Future minimum lease payments required under the lease at December 31, 2016 are as follows:

Year Ended June 30,	Amount
2017	\$ 131,136
2018	137,184
2019	143,231
2020	111,044
Beyond	-
	<u>\$ 522,595</u>

Habitat for Humanity of Greater Garland, Inc.
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NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

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

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

Level 3 Inputs – Instruments with primarily unobservable value drivers.

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

	2016			
	Fair Value Measurements Using Inputs Noted Above			
	Fair Value	Level 1	Level 2	Level 3
Cash and Cash Equivalents	606,524	606,524	-	-
Non-Interest Bearing				
Mortgages Receivable	396,323	-	-	396,323
Less: Unamortized Discount	(87,062)	-	-	(87,062)
Net	309,261	-	-	309,261
Total	\$ 915,785	\$ 606,524	\$ -	\$ 309,261

Habitat for Humanity of Greater Garland, Inc.
Notes to the Financial Statements
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NOTE 16 – FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

	2015			
	<u>Fair Value Measurements Using Inputs Noted Above</u>			
	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>
Cash and Cash Equivalents	175,373	175,373	-	-
Non-Interest Bearing				
Mortgages Receivable	1,147,430	-	-	1,147,430
Less: Unamortized Discount	(269,651)	-	-	(269,651)
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.

NOTE 17 – SALE OF MORTGAGES

Habitat for Humanity of Greater Garland, Inc. sold 2 groups of mortgages in 2016. The first group, consisting of 6 mortgages, was sold on January 8, 2016, to Inwood National Bank. A purchase price of \$108,821 was paid by Inwood (Buyer) to HFHGG (Seller). At the time of the sale, there was an outstanding principal amount of \$141,289.73 on the mortgages sold to Inwood. Also, HFHGG agreed to continue to service the mortgages and remit the monthly payments from the mortgagees to Inwood National Bank.

The second group, consisting of 27 mortgages, was sold to Dallas Area Habitat for Humanity, dba 'Dallas Neighborhood Homes' (DNH) on December 8, 2016. The Outstanding principal value of the mortgages was approximately \$565,693. DNH (the buyer) remitted to HFHGG (the seller) the total amount of \$454,136. For both of these sales of mortgages the buyers have recourse to HFHGG if any of the mortgagees fail to perform. The difference between the principal the purchase price is included in gain (loss) on sale of assets on the statement of activities for the year ended December 31, 2016.

NOTE 18 – SUBSEQUENT EVENTS

An evaluation of subsequent events was performed in accordance with ASC 855-10, Subsequent Events, through March 12, 2018, which is the date of the report. No material subsequent events were noted.