

HABITAT FOR HUMANITY
OF GREATER DAYTON, INC.

FINANCIAL REPORT

JUNE 30, 2016 AND 2015



FLAGEL HUBER FLAGEL
Certified Public Accountants | Business Advisors

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

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JUNE 30, 2016 AND 2015

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INDEPENDENT AUDITOR’S REPORT

To the Board of Trustees of
Habitat for Humanity of Greater Dayton, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Greater Dayton, Inc. (“Habitat”), which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows 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 audits 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 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 Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of functional expenses on pages 21 and 22 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

A handwritten signature in cursive script that reads "Fligel Huber Fligel".

Certified Public Accountants

Dayton, Ohio

November 10, 2016

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
	<u>2016</u>	<u>2015</u>
ASSETS		
Cash and cash equivalents	\$ 243,593	\$ 259,716
Cash and cash equivalents - board designated for capital campaign	10,577	1,775
Cash and cash equivalents - board designated for Greene County	69,235	149,016
Escrow holdings - taxes and insurance	143,080	132,673
Investments	68,592	71,485
Investments - permanently restricted	67,570	67,570
Pledges receivable, net of allowance	6,680	6,985
Pledges receivable - board designated for capital campaign, net of allowance and discount	21,297	42,739
Other receivables	27,664	43,443
Prepaid expenses	2,066	6,467
Construction in progress	210,537	207,567
Non-interest bearing mortgage loans	6,605,567	6,537,007
Discount on non-interest bearing mortgage loans	(3,366,990)	(3,341,119)
Land held for development	834,696	786,819
Property, plant and equipment, net	675,973	697,778
TOTAL ASSETS	<u>\$ 5,620,137</u>	<u>\$ 5,669,921</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	\$ 72,343	\$ 152,342
Accounts payable and accrued expenses	292,780	235,502
Escrow holdings - taxes and insurance	143,080	132,673
Agency liabilities	134,460	117,446
Note payable	72,947	86,815
TOTAL LIABILITIES	<u>715,610</u>	<u>724,778</u>
NET ASSETS		
Unrestricted	4,735,848	4,684,043
Board designated - Greene County	69,235	149,016
Board designated - capital campaign	31,874	44,514
TOTAL UNRESTRICTED NET ASSETS	<u>4,836,957</u>	<u>4,877,573</u>
Permanently restricted	67,570	67,570
TOTAL NET ASSETS	<u>4,904,527</u>	<u>4,945,143</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 5,620,137</u>	<u>\$ 5,669,921</u>

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>UNRESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions	\$ 964,470	\$ 0	\$ 964,470
In-kind contributions	136,131	0	136,131
Sales of houses and land	671,885	0	671,885
Mortgage loan discount amortization	257,215	0	257,215
ReStore sales	679,810	0	679,810
Special events	96,443	0	96,443
Other gains	21,528	0	21,528
Net investment return	(3,294)	0	(3,294)
Total revenue, gains and other support	<u>2,824,188</u>	<u>0</u>	<u>2,824,188</u>
EXPENSES:			
Program services	2,462,786	0	2,462,786
Supporting services:			
Fundraising	210,124	0	210,124
Management and general	191,894	0	191,894
	<u>2,864,804</u>	<u>0</u>	<u>2,864,804</u>
CHANGE IN NET ASSETS	(40,616)	0	(40,616)
NET ASSETS - beginning of year	<u>4,877,573</u>	<u>67,570</u>	<u>4,945,143</u>
NET ASSETS - end of year	<u>\$ 4,836,957</u>	<u>\$ 67,570</u>	<u>\$ 4,904,527</u>

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>UNRESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE, GAINS AND OTHER SUPPORT:			
Contributions	\$ 868,715	\$ 0	\$ 868,715
Cash contributions - capital campaign	1,000	0	1,000
In-kind contributions	330,204	0	330,204
Sales of houses and land	521,984	0	521,984
Mortgage loan discount amortization	297,076	0	297,076
ReStore sales	584,532	0	584,532
Special events	95,145	0	95,145
Other gains (losses)	(43,121)	0	(43,121)
Net investment return	1,703	0	1,703
Total revenue, gains and other support	<u>2,657,238</u>	<u>0</u>	<u>2,657,238</u>
EXPENSES:			
Program services	2,112,615	0	2,112,615
Supporting services:			
Fundraising	156,458	0	156,458
Management and general	228,802	0	228,802
	<u>2,497,875</u>	<u>0</u>	<u>2,497,875</u>
CHANGE IN NET ASSETS	159,363	0	159,363
NET ASSETS - beginning of year	<u>4,718,210</u>	<u>67,570</u>	<u>4,785,780</u>
NET ASSETS - end of year	<u>\$ 4,877,573</u>	<u>\$ 67,570</u>	<u>\$ 4,945,143</u>

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED	
	JUNE 30,	
	2016	2015
	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (40,616)	\$ 159,363
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Sales of homes to homeowners	(330,597)	(193,958)
Depreciation	26,306	32,242
Mortgage loan discount amortization	(257,215)	(297,076)
Loss on disposal of property, plant and equipment	0	57,615
Unrealized (gain) loss on investments	2,893	(1,769)
Effect of changes in assets and liabilities:		
Escrow holdings - taxes and insurance	(10,407)	(19,398)
Pledges receivable	305	10,246
Pledges receivable - board designated for capital campaign	21,442	27,818
Other receivables	15,779	(17,430)
Prepaid expenses	4,401	(6,467)
Construction in progress	(2,970)	15,377
Land held for development	(47,877)	(118,084)
Accounts payable and accrued expenses	57,278	3,752
Escrow holdings - taxes and insurance	10,407	19,398
Agency liabilities	17,014	9,374
TOTAL ADJUSTMENTS	<u>(493,241)</u>	<u>(478,360)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(533,857)</u>	<u>(318,997)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgage payments and credits	545,123	373,156
Purchase of property, plant and equipment	(4,501)	(14,389)
Proceeds from sale of property, plant and equipment	0	67,857
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>\$ 540,622</u>	<u>\$ 426,624</u>

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

	FOR THE YEARS ENDED JUNE 30,	
	2016	2015
	<u> </u>	<u> </u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from (payments on) line of credit	\$ (79,999)	\$ 73,082
Repayment of notes payable	<u>(13,868)</u>	<u>(54,461)</u>
 NET CASH PROVIDED BY (USED IN) FINANCING ACTIVITIES	 <u>(93,867)</u>	 <u>18,621</u>
 CHANGE IN CASH AND CASH EQUIVALENTS	 (87,102)	 126,248
 CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>410,507</u>	<u>284,259</u>
 End of year	 <u><u>\$ 323,405</u></u>	 <u><u>\$ 410,507</u></u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 3,689	\$ 9,457
 Non-cash investing and financing activities:		
Issuance of non-interest bearing mortgage loans	\$ 734,528	\$ 467,000
Discount on non-interest bearing mortgage loans	403,931	273,042
Sales of houses to homeowners subject to non-interest bearing mortgage loans	330,597	193,958

The accompanying notes are an integral part of these statements.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

1. ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Dayton, Inc. ("Habitat") is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations. Habitat serves families in Montgomery and Greene Counties, Ohio and is supported primarily through sales of homes, its ReStore sales activity and donor contributions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the financial statements.

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 for not-for-profit organizations.

Financial Statement Presentation

Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of each class as it pertains to Habitat is as follows:

Unrestricted – Represents resources that have no restriction on their use and are available to support Habitat's operations. Certain funds have been designated by the Board of Directors to retire the Organization's note payable obligation, and for home building activities in Greene County, Ohio.

Temporarily Restricted – Represents resources resulting from contributions and other inflows of assets whose use by Habitat is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Habitat pursuant to those stipulations. Habitat has no temporarily restricted net assets; therefore, this classification is omitted from the financial statements.

Permanently Restricted – Represents resources resulting from contributions or other inflows of assets whose use by Habitat is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Habitat pursuant to those stipulations.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Habitat considers cash and cash equivalents to be all highly liquid accounts that include interest and non-interest bearing demand deposit accounts.

Concentration of Credit Risk

Habitat maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Habitat has not experienced any losses in these accounts. Insurance coverage is \$250,000 per depositor at each financial institution, and the non-interest bearing cash balances may, at times, exceed federally insured limits. Habitat believes it is not exposed to any significant credit risk on cash.

Escrow Activity and Agency Liabilities

Habitat services the mortgages on the homes it sells. Consequently, Habitat records an asset titled escrow holdings – taxes and insurance and a liability titled escrow holdings – taxes and insurance, which are amounts received for insurance and property taxes on such homes. Habitat also services mortgages partially financed through a third party lender. In servicing these homes, Habitat collects owner repayments on behalf of the third parties. Monies collected on behalf of these third parties are reflected as a liability titled agency liabilities.

Investments

All investments are reported at fair value. Investment income, including interest, dividends, and realized and unrealized gains or losses, are recorded in the statements of activities as unrestricted, temporarily restricted or permanently restricted, based upon donor restrictions.

Pledges Receivable

Pledges receivable represent unconditional pledges from donors to contribute cash or other assets to Habitat. Pledges receivable are recognized when the pledge is made at the net present value of their estimated future cash flows. At June 30, 2016 and 2015 all pledge balances were estimated to be collected within one year. Management reviewed pledges receivable and has determined an allowance for doubtful accounts of \$7,629 and \$1,097 as of June 30, 2016 and 2015, respectively. Bad debt expense recorded related to these receivables were \$6,532 and \$0 for the years ended June 30, 2016 and 2015, respectively.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Pledges Receivable – Board Designated for Capital Campaign

These pledges receivable represent amounts pledged from donors as part of Habitat's recent capital campaign and have been designated by the Board of Trustees for repayment of the note payable related to the building acquisition in a prior year. At June 30, 2016 and 2015, all board designated pledge balances were expected to be collected within one to five years. These pledges are recognized when received at the net present value of their estimated future cash flows. At June 30, 2016 and 2015 Habitat recorded a discount of \$1,188 and \$2,184, respectively. Management has reviewed these receivables and has determined an allowance of \$14,077 and \$0 as of June 30, 2016 and 2015, respectively. Bad debt expense related to these receivables for the years ended June 30, 2016 and 2015 was \$14,077 and \$0, respectively.

Other Receivables

Habitat records other receivables that consist of insurance and property taxes paid by Habitat on behalf of homeowners with insufficient escrow balances. These balances totaled \$14,322 and \$22,477 at June 30, 2016 and 2015 respectively. Due to the suspect collectability of these balances, management has recorded an allowance for doubtful accounts of \$14,322 and \$22,477 at June 30, 2016 and 2015, respectively.

Also included in other receivables are amounts collectible from various entities and individuals related to building expenses and special events. These amounts total to \$27,664 and \$43,443 at June 30, 2016 and 2015, respectively. Management has determined that no allowance for doubtful accounts is necessary and there have been no bad debt expenses recorded related to these receivables for the years ended June 30, 2016 and 2015.

Mortgages Receivable

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. The mortgages have an original maturity of twenty (20) to thirty-five (35) years and arise in connection with Habitat's homebuilding initiatives. Habitat considers homeowners to be delinquent if they are 30 days past due on their mortgage payment. 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 accepting 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. Consequently, no allowance for credit losses has been established for mortgages receivable as of June 30, 2016 and 2015. Management recorded bad debt expense related to mortgages receivable of \$0 for the years ended June 30, 2016 and 2015.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgages Receivable (Continued)

In connection with the issuance of the original non-interest bearing mortgages, in most cases, Habitat also issues a silent second mortgage. These silent second mortgages represent the difference between the original mortgage and the appraised value of the home and are due to Habitat either in part or in full, if the homeowner does not comply with the terms of the original mortgage. These silent second mortgages deter the homeowner from selling the home upon closing for an immediate profit and are typically forgiven on a prorated basis over the first 100 scheduled payments of the original mortgage. At June 30, 2016 and 2015, Habitat has not recorded any receivables related to these silent second mortgages as management has determined that no triggering events have occurred that would require they be recognized in the financial statements.

Habitat's concentration of credit risk with respect to mortgage loans receivable depends on its partner families' ability to repay, which varies with economic conditions in each geographic area.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. 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 statements of activities as net assets released from restrictions. However, restricted contributions may be reported as unrestricted support if the restrictions are met in the same reporting period.

Sales of Houses and Land

Sales of houses and land to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at various rates ranging from 6.0% to 9.0% based upon prevailing market rates for disadvantaged loans at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages.

Donated Services

Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat. For the years ended June 30, 2016 and 2015, donated services recognized as contributions were \$18,345 and \$0, respectively. Also, 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 not susceptible to objective measurement or valuation.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Donated Goods

Habitat receives donated goods for resale at the ReStore and records the donated goods at zero value rather than its fair market value as is the practice prevalent with other organizations engaged in similar activities.

Property and Equipment

Habitat capitalizes all expenditures for property and equipment in excess of \$2,500 that have a useful life of at least three years. Property and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Donated equipment is recorded at fair market value at the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 39 years.

Construction in Progress

Construction in progress represents the construction costs, including donated building materials or services, of homes either under construction or completed but not yet transferred to homeowners. Construction in progress is valued at purchased cost, or if donated, at the fair market value as of the date of donation. Costs incurred in conjunction with home construction are capitalized until the completion of each home. Following is a summary of home building activity for the years ended June 30:

	2016		2015	
	Number	Costs	Number	Costs
Homes under construction, beginning of year	19	\$ 207,567	8	\$ 222,944
Additional costs in process		536,290		92,802
New homes started during the year	5	293,676	18	441,502
Homes transferred during the year	(9)	(826,996)	(7)	(549,681)
Homes under construction, end of year	15	\$ 210,537	19	\$ 207,567

Impairment of Long-Lived Assets

Habitat reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended June 30, 2016 and 2015.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

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

Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statements of activities. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended June 30, 2016 and 2015 totaled \$128,914 and \$71,980, respectively.

Income Taxes

Habitat has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International by the Internal Revenue Service.

Accounting principles generally accepted in the United States of America prescribe attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. It requires affirmative evaluation that it is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements, and additional disclosures about uncertain tax positions are required.

Habitat's evaluation as of June 30, 2016 revealed no income tax positions that, if overturned, would have a material impact on the financial statements, including any position that would place Habitat's exempt status in jeopardy at June 30, 2016. The 2012 through 2014 tax years remain subject to examination by the Internal Revenue Service. Habitat does not believe that any reasonable changes will occur within the next twelve months that will have a material impact on the financial statements.

Reclassifications

Certain amounts reported in the prior year have been reclassified to conform to the current year presentation.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

3. PLEDGES RECEIVABLE – BOARD DESIGNATED FOR CAPITAL CAMPAIGN

Pledges receivable represent pledges due in futures years. Amounts due in more than one year have been discounted to their estimated net present value using a 3.25% discount rate. Pledges receivable are expected to be collected as follows:

Due by June 30, 2017	\$	19,798
Due by June 30, 2018		3,900
Due by June 30, 2019		2,500
Due by June 30, 2020		2,500
Due by June 30, 2021		7,864
TOTAL		<u>36,562</u>
Less: Discounts to present value		(1,188)
Less: Allowance for doubtful accounts		<u>(14,077)</u>
	\$	<u><u>21,297</u></u>

4. MORTGAGE RECEIVABLES

The following tables summarize the age analysis of mortgage receivables at June 30:

	<u>2016</u>	<u>2015</u>
Current	\$ 4,095,451	\$ 3,791,465
30 – 60 days past due	396,334	457,590
61 – 90 days past due	330,278	261,480
Over 90 days past due	<u>1,783,504</u>	<u>2,026,472</u>
Total	<u>\$ 6,605,567</u>	<u>\$ 6,537,007</u>

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

COST:	JUNE 30,		Estimated Useful Life in Years
	2016	2015	
Land	\$ 74,750	\$ 74,750	--
Building and improvements	650,907	649,006	39
Tools	2,489	2,489	5 - 7
Office equipment	28,206	38,805	3 - 7
Vehicles	118,559	131,773	4 - 7
TOTAL	874,911	896,823	
Less accumulated depreciation	(198,938)	(199,045)	
	<u>\$ 675,973</u>	<u>\$ 697,778</u>	

Depreciation expense was \$26,306 and \$32,242 for the years ended June 30, 2016 and 2015, respectively.

6. LINE OF CREDIT

Habitat has a revolving line of credit with a local bank with a maximum borrowing limit of \$250,000 to provide for normal working capital requirements. The line of credit bears interest at prime (3.50% and 3.25% at June 30, 2016 and 2015, respectively). The outstanding balance on this note was \$72,343 and \$152,342 as of June 30, 2016 and 2015, respectively.

7. OPERATING LEASES

Habitat leases certain office equipment under long-term lease agreements. These leases are classified as operating leases and expire in 2021.

Rent expense under operating lease agreements for the years ended June 30, 2016 and 2015 was \$0 and \$1,430, respectively.

Minimum future lease payments as of June 30, 2016 for each of the following five (5) fiscal years and in the aggregate are as follows:

2017	\$ 3,193
2018	2,988
2019	2,988
2020	2,988
2021	2,490
	<u>\$ 14,647</u>

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

8. RETIREMENT PLAN

Habitat sponsors a defined contribution plan (the Plan) covering all employees who have completed minimum age and service requirements. Habitat makes a contribution to the Plan up to 3% of the participant's compensation. Total expense for the years ended June 30, 2016 and 2015 was \$5,607 and \$3,412, respectively.

9. TRANSACTIONS WITH RELATED PARTIES

Habitat annually remits a portion 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 \$27,151 and \$35,134, respectively, to Habitat International. Such amounts are included in program services expense in the Statements of Activities.

At June 30, 2015, Habitat owed to Habitat International \$2,165 for materials purchased and \$19,400 as part of its annual contribution remittance. These amounts are included in accounts payable and accrued expenses.

Habitat also uses an accounting service, owned by a board member. Habitat paid \$139,182 and \$148,661 to this company during the years ended June 30, 2016 and 2015, respectively.

At June 30, 2016, Habitat owed to the above-mentioned accounting service provider \$5,792 for services provided prior to June 30, 2016. This amount is included in accounts payable and accrued expenses.

10. NOTE PAYABLE

Note payable consists of the following at June 30:

	<u>2016</u>	<u>2015</u>
PNC Bank - mortgage loan requiring monthly payments of \$825, bearing interest at 3.15%. Original value of loan was \$432,000, dated November 30, 2012, with a five year term, with a balloon payment in the fifth year.	\$ <u>72,947</u>	\$ <u>86,815</u>

Minimum future principle payments as of June 30, 2016 for each of the following two (2) fiscal years and in the aggregate are as follows:

2017	\$ 8,430
2018	<u>64,517</u>
	<u>\$ 72,947</u>

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

11. CONTINGENCIES

Financial awards from federal, state, and local governmental entities in the form of grants are subject to compliance audits. Such audits could result in claims against Habitat for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

12. INVESTMENTS

The cost and fair value of Habitat's investments are summarized as follows:

	JUNE 30, 2016		JUNE 30, 2015	
	Cost	Fair Value	Cost	Fair Value
Investments held at the Dayton Foundation:				
Money market funds	\$ 2,996	\$ 2,996	\$ 1,117	\$ 1,117
Common stocks	33,181	36,082	60,711	66,772
Mutual funds	89,034	97,084	62,061	71,166
	<u>\$ 125,211</u>	<u>\$ 136,162</u>	<u>\$ 123,889</u>	<u>\$ 139,055</u>

Components of investment return include the following for the years ended June 30:

	2016	2015
Unrealized gains (losses)	\$ (4,215)	\$ 1,703
Interest and dividend income	3,443	2,533
Investment fees	(2,522)	(2,467)
Other	0	(66)
	<u>\$ (3,294)</u>	<u>\$ 1,703</u>

13. ENDOWMENT FUNDS

Permanently restricted net assets consist of endowment fund investments created to further the mission of Habitat. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

13. ENDOWMENT FUNDS (Continued)

Habitat has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Habitat classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by SPMIFA. Habitat considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Habitat, and (7) Habitat's investment policies.

Habitat has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. Habitat's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. Habitat relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Habitat targets a diversified asset allocation that places an emphasis on equity investments to achieve its long-term return objectives with prudent risk parameters.

To date, Habitat has appropriated all the earnings from the endowment to support operations.

Permanently restricted endowment net assets as of June 30, 2016 and 2015 were \$67,570.

Changes in endowment net assets for the years ended June 30 were as follows:

	<u>2016</u>	<u>2015</u>
Beginning of year	\$ 67,570	\$ 67,570
Net appreciation	3,294	1,703
Amounts appropriated for expenditure	<u>(3,294)</u>	<u>(1,703)</u>
End of year	<u>\$ 67,570</u>	<u>\$ 67,570</u>

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

14. FAIR VALUE MEASUREMENTS

Habitat applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy has been established that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Observable inputs such as quoted prices in active markets;
- Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The carrying value of Habitat's short term financial instruments, including cash and cash equivalents, pledges receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization.

A description of the valuation methodologies used for assets measured at fair value, as well as the general description of such instruments pursuant to the valuation hierarchy, is set forth below. There have been no changes in the methodologies used at June 30, 2016 and 2015.

The fair values of investments are categorized as level one and are a combination of money market funds, common stocks, and mutual funds. The fair values are determined by quoted prices in active exchange markets, such as the New York Stock Exchange. See Note 12.

The discounted non-interest bearing mortgage loans receivable is categorized as level two. The discount rate used to calculate the discount for all mortgages closed during a fiscal year is published annually by Habitat for Humanity International. It is based on an average of the low-income housing credit annual discount rate, Revenue Ruling 2009-16 section 42(b)(1), for buildings placed in service during the period.

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2016 AND 2015

14. FAIR VALUE MEASUREMENTS (Continued)

Fair values of assets and liabilities measured on a recurring basis at June 30, 2016 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 2,996	\$ 0	\$ 0	\$ 2,996
Common stocks	36,082	0	0	36,082
Mutual funds	97,084	0	0	97,084
Total investments	<u>\$ 136,162</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 136,162</u>
Receivables				
Mortgage loans	\$ 0	\$ 6,605,567	\$ 0	\$ 6,605,567
Less: discounts	<u>0</u>	<u>(3,366,990)</u>	<u>0</u>	<u>(3,366,990)</u>
Net receivables	<u>\$ 0</u>	<u>\$ 3,238,577</u>	<u>\$ 0</u>	<u>\$ 3,238,577</u>

Fair values of assets and liabilities measured on a recurring basis at June 30, 2015 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Investments				
Money market funds	\$ 1,117	\$ 0	\$ 0	\$ 1,117
Common stocks	66,772	0	0	66,772
Mutual funds	71,166	0	0	71,166
Total investments	<u>\$ 139,055</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 139,055</u>
Receivables				
Mortgage loans	\$ 0	\$ 6,537,007	\$ 0	\$ 6,537,007
Less: discounts	<u>0</u>	<u>(3,341,119)</u>	<u>0</u>	<u>(3,341,119)</u>
Net receivables	<u>\$ 0</u>	<u>\$ 3,195,888</u>	<u>\$ 0</u>	<u>\$ 3,195,888</u>

15. SUBSEQUENT EVENTS

Management evaluated the activity of Habitat through November 10, 2016 (the date the financial statements were available to be issued) and concluded that no additional subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

SUPPLEMENTARY INFORMATION

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2016

	<u>Supporting Services</u>			<u>TOTAL</u>
	<u>Programs *</u>	<u>Fundraising</u>	<u>Management and General</u>	
Salaries and benefits	\$ 621,089	\$ 122,684	\$ 23,003	\$ 766,776
Contract labor	48,373	0	89,836	138,209
Building materials and supplies	826,996	0	0	826,996
Building services	121,469	0	0	121,469
Depreciation	24,202	1,052	1,052	26,306
Mortgage discounts	403,931	0	0	403,931
Vehicles	20,433	0	0	20,433
Utilities	41,729	2,455	4,909	49,093
Advertising	64,457	58,011	6,446	128,914
Special projects	103	0	0	103
Printing and postage	11,590	5,795	1,931	19,316
ReStore expenses	53,291	0	0	53,291
Professional fees	9,303	2,326	17,443	29,072
Insurance	25,258	1,722	1,722	28,702
Interest expense	0	0	3,689	3,689
Travel and entertainment	1,784	1,784	14,274	17,842
Office supplies	89,368	10,639	6,383	106,390
Education	27,145	2,121	13,148	42,414
Property maintenance	35,299	1,535	1,535	38,369
Other	36,966	0	6,523	43,489
	<u>\$ 2,462,786</u>	<u>\$ 210,124</u>	<u>\$ 191,894</u>	<u>\$ 2,864,804</u>
Portion of above expenditures supported by in-kind contributions	<u>\$ 136,131</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 136,131</u>

* Programs include Family Services, Volunteer Services, Affordable Housing through Construction, and ReStore

HABITAT FOR HUMANITY OF GREATER DAYTON, INC.

SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2015

	<u>Supporting Services</u>			<u>TOTAL</u>
	<u>Programs *</u>	<u>Fundraising</u>	<u>Management and General</u>	
Salaries and benefits	\$ 526,284	\$ 75,183	\$ 82,018	\$ 683,485
Contract labor	95,143	17,840	35,679	148,662
Building materials and supplies	549,681	0	0	549,681
Building services	296,822	0	0	296,822
Depreciation	26,761	645	4,836	32,242
Mortgage discounts	273,042	0	0	273,042
Rent	1,430	0	0	1,430
Vehicles	13,953	0	0	13,953
Utilities	53,159	3,127	6,254	62,540
Advertising	21,594	35,990	14,396	71,980
Special projects	372	0	0	372
Printing and postage	13,652	6,826	2,275	22,753
ReStore expenses	65,303	0	0	65,303
Professional fees	9,270	2,318	17,381	28,969
Insurance	25,555	1,917	4,472	31,944
Interest expense	0	0	9,457	9,457
Travel and entertainment	2,036	2,036	16,290	20,362
Office supplies	68,184	8,523	8,523	85,230
Education	26,275	2,053	12,727	41,055
Property maintenance	33,932	0	9,020	42,952
Other	10,167	0	5,474	15,641
	<u>\$ 2,112,615</u>	<u>\$ 156,458</u>	<u>\$ 228,802</u>	<u>\$ 2,497,875</u>
Portion of above expenditures supported by in-kind contributions	<u>\$ 330,204</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 330,204</u>

* Programs include Family Services, Volunteer Services, Affordable Housing through Construction, and ReStore



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