Fort Bend Habitat for Humanity

Audited Financial Statements

For the Year Ended June 30, 2016

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Independent Auditor's Report

To The Board of Directors of
Fort Bend Habitat for Humanity
Stafford, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of Fort Bend Habitat for Humanity (a nonprofit organization) which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses and cash flows 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 audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Fort Bend Habitat for Humanity as of June 30, 2016, and the changes 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.

Houston, Texas
May 8, 2017

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Fort Bend Habitat for Humanity
Statement of Financial Position
June 30, 2016

ASSETS:	
Current Assets	
Cash and cash equivalents	$ 216,772
Cash held in escrow	78,823
Grants receivable	6,466
Prepaid expenses	14,129
Inventory	196,981
Current portion of mortgage receivables, net	172,447
Total Current Assets	685,618
Deposits	7,500
Property and equipment, net	33,877
Long term portion of mortgage receivables, net	1,276,241
Total Assets	2,003,236
LIABILITIES AND NET ASSETS:	
Current Liabilities	
Accounts payable	4,689
Accrued expenses	8,167
Escrow deposits	78,823
Total Current Liabilities	91,679
Total Liabilities	91,679
Net Assets	
Unrestricted	1,911,012
Temporarily restricted	545
Total Net Assets	1,911,557
Total Liabilities and Net Assets	$ 2,003,236

See accompanying notes to financial statements.

Fort Bend Habitat for Humanity
Statement of Activities
For the Year Ended June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Public Support and Revenues			
Public Support:			
Contributions	$ 83,027	$ 107,953	$ 190,980
Grants	170,438	-	170,438
Fundraising events	540	-	540
In-Kind donations	46,394	-	46,394
Revenue:			
Transfers to homeowners	187,109	-	187,109
Mortgage loan discount amortization	94,549	-	94,549
ReStore sales	328,328	-	328,328
Interest income	-	-	-
Other	10,415	-	10,415
Total Public Support and Revenues	920,800	107,953	1,028,753
Net assets released from temporary restrictions	221,249	(221,249)	-
Total Public Support, Revenues and Reclassifications	1,142,049	(113,296)	1,028,753
Expenses			
Program Expenses:			
Cost of homes transferred	175,547	-	175,547
Discount on mortgages issued	89,111	-	89,111
Other program expenses	454,184	-	454,184
Total Program Expenses	718,842	-	718,842
Supporting Services:			
Fundraising Expenses	27,852	-	27,852
General and administrative	155,692	-	155,692
Total Expenses	902,386	-	902,386
Change in Net Assets	239,663	(113,296)	126,367
Net Assets, Beginning of Year	1,671,349	113,841	1,785,190
Net Assets, End of Year	$ 1,911,012	$ 545	$ 1,911,557

See accompanying notes to financial statements.

Fort Bend Habitat for Humanity
Statement of Functional Expenses
For the Year Ended June 30, 2016

		Supporting Services		
	Program	Management and General	Fundraising	Total
Advertising	$ -	$ 1,908	$ 1,908	$ 3,816
Bank Fees	-	7,313	-	7,313
Credit reports	2,094	-	-	2,094
Depreciation expense	12,903	1,450	145	14,498
Dues and subscriptions	-	865	-	865
Health insurance	9,013	3,314	928	13,255
Home construction cost	175,547	-	-	175,547
Imputed discounts on mortgages receivable	89,111	-	-	89,111
Insurance	21,858	8,036	2,250	32,144
Meetings and conferences	-	1,995	-	1,995
Merchandise	32,343	-	-	32,343
Miscellaneous	7,409	3,175	-	10,584
Office expenses	-	6,518	-	6,518
Payroll taxes	13,993	5,145	1,440	20,578
Postage and printing	-	559	-	559
Professional fees	-	9,310	-	9,310
Property taxes	-	3,553	-	3,553
Rent	105,212	13,004	-	118,216
Repairs and maintenance	28,483	2,144	-	30,627
Salaries	184,976	68,006	19,042	272,024
Supplies	2,495	1,307	2,139	5,941
Telephone	3,293	2,484	-	5,777
Tithes to Habitat International	24,901	-	-	24,901
Training	-	98	-	98
Travel	-	13,481	-	13,481
Utilities	5,211	2,027	-	7,238
Total Functional Expenses	$ 718,842	$ 155,692	$ 27,852	$ 902,386

See accompanying notes to financial statements.

Fort Bend Habitat for Humanity
Statement of Cash Flows
For the Year Ended June 30, 2016

Cash Flows From Operating Activites:	
Change in Net Assets	$ 126,367
Adjustments to reconcile increase (decrease) in net assets to net cash	
Depreciation	14,498
Imputed discounts on mortgages receivable	89,111
Amortization of imputed interest on mortgages receivable	(94,549)
Change in assets and liabilities:	
Grants receivable	27,310
Prepaids	(6,287)
Inventory	(21,329)
Accounts payable	1,892
Accrued expenses	(637)
Escrow deposits	(7,651)
Net Cash (Used in)/Provided by Operating Activities	128,725
Cash Flows From Investing Activities	
Cash paid for fixed asset additions	(2,309)
Homeowner mortgages issued	(187,109)
Mortgage payments received	171,346
Net Cash (Used in)/Provided by Investing Activities	(18,072)
Net Increase/(Decrease) in Cash	110,653
Cash, beginning of year	184,942
Cash, end of year	$ 295,595
Supplemental disclosures of cash flow information:	
Interest Expense	$ 296
Non-cash additions to fixed assets through donations	$ -

See accompanying notes to financial statements.

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Note 1 – Organization and Summary of Significant Accounting Policies

Fort Bend Habitat for Humanity ("the Organization") is a non-denominational Christian not-for-profit organization incorporated in December 1991. The purpose of the Organization is to partner with the families and with other charitable organizations to provide affordable housing to deserving, working families. The Organization's mission is accomplished primarily through grants and donations from the public. The Organization's goal is to create better housing in which to live and work, which is fulfilled by the construction of new homes and renovation of existing donated homes.

The Organization is an affiliate of Habitat for Humanity International (HFHI) and is guided by the latter in staff training, fund raising and construction purposes. However, HFHI does not exercise control over the affiliate (The Organization) and the affiliate is encouraged to be self-supporting in its fund raising, family selection, nurture, financial and construction aspects of its work.

The ReStore outlet, a division of the Organization, accepts donations of new and used construction materials and home renovation products that are sold to the public at deeply discounted prices. All proceeds from the store are directed towards the construction of new affordable housing for low income families.

Basis of Accounting

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

Financial Statement Presentation

The Organization's financial statements are presented in accordance with Financial Accounting Standards Board's (FASB) Accounting Standards Codification (ASC) 958-205-45-4, Financial Statements of Not-for-Profit Organizations. Under FASB ASC 958-205-45-4, the Organization is required to report information regarding its financial position and activities according to three classes of net assets.

Unrestricted Net Assets

Net assets that are not subject to donor-imposed stipulations. Unrestricted net assets may be designated for specific purposes by action of the Board or may otherwise be limited by contractual agreements with outside parties.

Temporarily Restricted Net Assets

Net assets subject to donor-imposed stipulations that may or will be met either by actions of the Organization and/or the passage of time. Temporarily restricted net assets at June 30, 2016 are $545 and are restricted for future development.

Continued

Note 1 – Organization and Summary of Significant Accounting Policies (Continued)

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 would permit the Organization to use the investment return on these assets. The Organization has no permanently restricted net assets as of June 30, 2016.

In addition, the Organization is required by FASB ASC 958-205-45-4 to present a statement of cash flows.

Grants

Generally, grants are recognized as revenues when earned. Grants that operate on a reimbursement basis are recognized on the accrual basis as revenues only to the extent of disbursements and commitments that are allowable for reimbursement. Revenues from contributions, donations and other sources are recognized as unrestricted or temporarily restricted revenues when received or unconditionally promised by a third party. Revenues from special events are recognized when the events are held. Interest income is recognized when earned based on passage of time. Program income and other income are recognized when received.

Contributions and Promises to Give

In accordance with FASB ASC 958-605-45-3, Accounting for Contributions Received and Contributions Made, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Conditional promises to give cash or other assets are not recognized as revenues until received. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions are met in the fiscal year in which the contributions were recognized. All other donor-restricted contributions would be reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. 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.

The Organization uses the allowance method to determine uncollectible promise to give receivables. The allowance is based on management's analysis of specific promises made.

Grants and Promises to give receivable as of June 30, 2016 was $6,466 and will be received in less than one year. Management believes the amount is fully collectible and therefore, no allowance for uncollectible promise to give receivables has been recorded.

Continued

Note 1 – Organization and Summary of Significant Accounting Policies (Continued)

Contributed Services

A substantial number of volunteers have made significant contributions of their time and effort to The Organization's programs and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, when provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenues and expenses as established by FASB ASC 958-605-25-16. For the year ended June 30, 2016, there were no such amounts included in the accompanying statements of activities and changes in net assets.

Donations

Donations are recorded as contributions at fair value at the date of donation. Such donations are reported as unrestricted net assets unless the donor has restricted the donated assets to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as restricted by the donor.

Mortgage Receivables

Mortgage receivables consist 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 The Organization 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 to other families in need of decent, affordable housing. Homes available for sale are stated at the lower of cost or market.

The Organization's management considers all the mortgages collectible based on a review of the detail accounts with consideration given to historical performance and trends. Accordingly, there is no reserve recorded for uncollectible mortgage receivables as of June 30, 2015.

Cash and Cash Equivalents

For purposes of the statements of cash flows, The Organization considers all highly liquid investments with an initial maturity of three (3) months or less when purchased to be cash equivalents.

Continued

Note 1 – Organization and Summary of Significant Accounting Policies (Continued)

Transfers to Homeowners

Transfers 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% to 9% based upon prevailing market rates at the inception of the mortgages. Discounts are amortized using the straight-line method over the lives of the mortgages.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those assumptions.

Functional Allocation of Expenses

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

Inventory

Inventory includes construction-in-process and vacant lots which consist of donated and purchased materials, donated and purchased lots, houses for resale, and houses under construction in the normal course of business. Donated construction materials are recorded at fair market value on the date of receipt, and such items are expensed to construction costs based on specific identification to the respective houses when used. Purchased materials are recorded at the lower of cost or market determined by the specific identification method. Lots donated to the Organization and held for development are carried at fair market value, which approximates appraised property value at date of receipt. Purchased lots are recorded at cost. Houses for resale are recorded at the lower of cost or market determined by the specific identification method. Houses under construction, also known as construction-in-progress, are recorded at cost and will be available for future transfer to homeowners upon the completion of construction.

Federal Income Tax

The Organization is a not-for-profit organization that is exempt from federal income taxes under section 501(c)(3) of the Internal Revenue Code pursuant to the group exemption letter received from the Internal Revenue Service. Accordingly, no provision for income taxes has been made. However, should The Organization engage in activities unrelated to the purpose for which it was created, taxable income could result.

Continued

Note 1 – Organization and Summary of Significant Accounting Policies (Continued)

Federal Income Tax (Continued)

Financial Accounting Standards Board ("FASB") Accounting Standards Codification ("ASC") Topic No. 740, Accounting for Income Taxes, prescribes accounting for and disclosure of uncertainty in tax positions. This interpretation defines the criteria that must be met for the benefits of a tax position to be recognized in the financial statements and the measurement of tax benefits recognized. For the fiscal year ended June 30, 2016, the Organization did not record any liabilities for uncertain tax positions or income taxes. The Organization does not expect the amounts of unrecognized tax benefits to significantly increase or decrease within the next twelve (12) months.

Advertising Expense

Advertising costs are expensed as incurred and amounted to $3,816 for the years ended June 30, 2016.

Fundraising Expense

Fundraising expense for the year ended June 30, 2016 was $27,852.

Escrow

The Organization currently services the mortgages on the homes it sells. The Organization collects monthly escrow payments from the homeowners, which will be used for payment of the homeowners' insurance and property taxes. The escrow funds collected for future payments are recorded as a liability and restricted cash. At June 30, 2016, the homeowners' escrow fund had a liability balance of $78,823.

Property and Equipment

The Organization capitalizes property and equipment over $1,000. Lesser amounts are expensed. Purchased property and equipment is capitalized at cost. Donations of property and equipment are recorded as contributions at their estimated fair value. Such donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions. Absent donor stipulations regarding how long those donated assets must be maintained, The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time. Property and equipment are depreciated using the straight-line method over estimated useful lives ranging from five to thirty- nine years.

Credit Risk – Mortgage Loans Receivable

The Organization'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 the geographic area.

Continued

Note 1 – Organization and Summary of Significant Accounting Policies (Continued)

Sales Taxes

The State of Texas imposes a sales tax on the Organization's Restore sales to non-exempt customers. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to exclude the tax collected and remitted to the State from sales revenue and expenses.

Fair Value

The financial statements are prepared in accordance with FASB ASC 820 for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements or on a recurring basis (at least annually). FASB ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. FASB ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

FASB ASC 820 describes three levels of inputs that may be used to measure fair value:

Level 1: Quotes market prices in active markets for identical assets or liabilities.

Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.

Level 3: Unobservable inputs that are not corroborated by market data.

The Organization's financial instruments include cash, mortgage receivables, and accounts payable. The following methods and assumptions were used by the Organization in estimating the fair value of its financial instruments:

Cash and cash equivalent

The carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.

Mortgage receivables

The carrying amount is at net present value of the loan.

Accounts payable

The carrying amount reported in the statements of financial position approximates fair value because of the short maturity of those instruments.

Note 1 – Organization and Summary of Significant Accounting Policies (Continued)

Home Construction Costs

Cost incurred in conjunction with home construction are capitalized until the completion of each home. Following is a summary of home building activity:

	2016	
Homes under construction, July 1st	2	$ 175,652
New homes started during the year	2	196,876
Homes transferred during the year	(2)	(175,547)
Homes under construction, June 30th	2	$ 196,981

Note 2 – Cash and Cash Equivalents

The Organization maintains cash balances at several financial institutions located in Texas. All accounts at each institution are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000. At June 30, 2016 the Organization's cash balances were fully insured by the FDIC.

Note 3 – Grant and Promise to Give Receivables

Grant and promise to give receivables are summarized as follows:

	2016
Travis High School	6,000
Others	466
Total	$ 6,466

Note 4 – Property and Equipment

Property and equipment consist of the following:

	2016
Leasehold improvements	$ 32,410
Equipment	18,694
Vehicles	66,603
	117,707
Less: Accumulated depreciation	(83,830)
Total	$ 33,877

Depreciation expense amounted to $14,498 for the year ended June 30, 2016.

Continued

Note 5 – Mortgage Receivable and Concentrations of Credit Risk

The Organization constructs and sells homes to individuals under non-interest bearing mortgages. The individuals are required to make mortgage payments for periods ranging from 20 to 30 years at which time title to the property passes to the individual. All of the mortgages receivable are secured by the homes sold. All of The Organization's mortgages are used to finance the purchase of homes in the Fort Bend and surrounding areas. The ability of the borrowers' to repay the mortgage is dependent upon the economic strength of the area.

For financial reporting purposes, these mortgages used imputed interest rates ranging from 6% to 9%. Interest is recognized for financial reporting as the mortgages mature. Generally, all of the homes have a fair market value at the date of the sale that exceeds the contract sales price. In consideration for receiving a bargain purchase price and receiving a non-interest bearing mortgage, the purchasers are restricted in their ability to mortgage or sell the home. The Organization generally has the option to repurchase the home or receive a portion of the realized gain from the sale of the home during a portion of the mortgage period.

The mortgages receivable are presented in the statement of financial position as follows:

	2016
Gross repayments due under the mortgages	$ 3,101,106
Discounts representing imputed interest	(1,652,418)
Mortgage receivables, net of unamortized discount	$ 1,448,688

NOTE 6 – Inventory

Lots and houses available for construction or resale at June 30, 2016 were as follows:

	2016
Materials	$ 7,014
Construction in progress	189,967
Totals	$ 196,981

At June 30, 2016 two homes were under construction. The Organization transfers houses to buyers immediately upon completion of construction and other legal formalities.

In general, a house takes two to four months for completion of construction. Total cost of construction-in-progress was $196,981 at June 30, 2016 and consisted of two lots, two homes and the related building materials and supplies.

Continued

Note 7 – Related-Party Transactions

The Organization voluntarily remits a portion of its contributions (excluding in-kind contributions) annually to Habitat for Humanity International (HFHI). These affiliate tithes to HFHI are used to fund construction of homes in economically depressed areas around the world. Also, in November 2013 HFHI implemented the U.S Stewardship and Organizational Sustainability Initiative (US-SOSI) to help finance a portion of operational costs incurred by HFHI to support the work of U.S affiliates. During the year ended June 30, 2016 The Organization contributed $24,900 to HFHI. Such amounts are included in the program services expense in the statement of activities. Furthermore, The Organization received approximately $28,600 in grants and contributions from HFHI during the year ended June 30, 2016.

The Organization's board members contributed $6,750 during the year ended June 30, 2016.

Note 8 – Concentration of Credit Risk

The Organization's management recognizes that it is common for some of the mortgage receivables to be in arrears. The Organization continues to negotiate and collect the delinquent payments on these notes. The Organization will file "foreclosure proceedings" on these homes only when all else fails and/or the current homeowners violate the terms of the Deed of Trust.

Note 9 – Operating Leases

On January 1, 2014, the Organization entered into a 5 year lease agreement for the Habitat ReStore building. The lease agreement's terms were a monthly base rent of $8,000 plus $1,678 for property taxes beginning January 1, 2014 and ending December 31, 2018.

Future minimum lease payments over the remainder of the building lease agreement are as follows:

For the Year Ending June 30	Amount
2017	116,136
2018	116,136
2019	58,068
Total	$ 290,340

For the year ended June 30, 2016, rent expense was $118,216.

Continued

Note 10 – Concentration of Grants Receivable

The Organization is supported through grants, contributions from other non-profit organizations and the general public in the Fort Bend area. Changes in the economy of the Greater Houston area may impact the amount and frequency of future contributions available to the Organization. As disclosed in Note 3, one organization accounted for 10% or more of the Organization's grants receivable at June 30, 2016.

Note 11 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes:

	2016
Tools	$ 345
Construction	200
Totals	$ 545

Note 12 – Subsequent Events

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through May 8, 2017, the date the financial statements were available to be issued.

End