

HABITAT FOR HUMANITY
NORTHWEST HARRIS COUNTY

FINANCIAL STATEMENTS

June 30, 2014 and 2013

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
June 30, 2014 and 2013



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KOLKHORST & KOLKHORST

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Independent Auditors' Report

Board of Directors

Habitat for Humanity Northwest Harris County

We have audited the accompanying financial statements of Habitat for Humanity Northwest Harris County (a nonprofit organization), which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses, 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.

Auditors' 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 auditors' 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 Northwest Harris County as of June 30, 2014 and 2013, 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 cursive script that reads "Kolphout & Kolphout".

Houston, Texas
December 2, 2014

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF FINANCIAL POSITION

	June 30,	
	<u>2014</u>	<u>2013</u>
ASSETS		
Cash	\$ 1,271,108	\$ 1,149,949
Mortgage receivable, net	3,021,265	2,854,323
Prepaid expenses	82,916	143,311
Inventory	10,490	2,851
Construction in progress	245,620	261,846
Land held for future construction	718,766	1,062,348
Furniture, equipment, and leasehold improvements, net	<u>231,716</u>	<u>206,187</u>
	<u>5,581,881</u>	<u>\$ 5,680,815</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable	\$ 98,220	\$ 104,046
Accrued liabilities	65,030	47,580
Escrow funds	286,303	289,982
Note payable	<u>534,235</u>	<u>894,087</u>
	<u>983,788</u>	<u>1,335,695</u>
NET ASSETS		
Unrestricted net assets	4,598,093	4,321,485
Temporarily restricted net assets	<u>-</u>	<u>23,635</u>
	<u>4,598,093</u>	<u>4,345,120</u>
	<u>\$ 5,581,881</u>	<u>\$ 5,680,815</u>

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Public support and revenues			
Contributions from donors and foundations	\$ 816,910	\$ -	\$ 816,910
Special events, net of donor benefit of \$21,705	117,514	-	117,514
In-kind contributions	63,043	-	63,043
Sale of homes, net of discount of \$630,660	410,340	-	410,340
Amortization of mortgage discounts	338,514	-	338,514
Merchandise sales	1,638,271	-	1,638,271
Deconstruction revenue	560,000	-	560,000
Miscellaneous	12,558	-	12,558
Net assets released from restrictions	<u>23,635</u>	<u>(23,635)</u>	<u>-</u>
Total public support and revenues	<u>3,980,785</u>	<u>(23,635)</u>	<u>3,957,150</u>
Expenses			
Program services	3,401,199	-	3,401,199
Management and general	149,383	-	149,383
Fundraising	<u>153,595</u>	<u>-</u>	<u>153,595</u>
Total expenses	<u>3,704,177</u>	<u>-</u>	<u>3,704,177</u>
Change in net assets	276,608	(23,635)	252,973
Net assets, beginning of year	<u>4,321,485</u>	<u>23,635</u>	<u>4,345,120</u>
Net assets, end of year	\$ <u><u>4,598,093</u></u>	\$ <u><u>-</u></u>	\$ <u><u>4,598,093</u></u>

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF ACTIVITIES
For the year ended June 30, 2013

	Unrestricted	Temporarily Restricted	Total
Public support and revenues			
Contributions from donors and foundations	\$ 683,988	\$ 30,000	\$ 713,988
Special events, net of donor benefit of \$14,365	50,191	-	50,191
In-kind contributions	134,851	-	134,851
Sale of homes, net of discounts of \$388,097	497,702	-	497,702
Amortization of mortgage discounts	253,803	-	253,803
Fees and grants from government agencies	-	-	-
Merchandise sales	1,461,621	-	1,461,621
Deconstruction revenue	498,000	-	498,000
Miscellaneous	34,409	-	34,409
Net assets released from restrictions	<u>181,957</u>	<u>(181,957)</u>	<u>-</u>
Total public support and revenues	<u>3,796,522</u>	<u>(151,957)</u>	<u>3,644,565</u>
Expenses			
Program services	2,890,753	-	2,890,753
Management and general	264,172	-	264,172
Fundraising	<u>147,320</u>	<u>-</u>	<u>147,320</u>
Total expenses	<u>3,302,245</u>	<u>-</u>	<u>3,302,245</u>
Change in net assets	494,277	(151,957)	342,320
Net assets, beginning of year	<u>3,827,208</u>	<u>175,592</u>	<u>4,002,800</u>
Net assets, end of year	\$ <u><u>4,321,485</u></u>	\$ <u><u>23,635</u></u>	\$ <u><u>4,345,120</u></u>

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2014

	Construction	Restore	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 203,614	\$ 499,573	\$ 703,187	\$ 24,974	\$ 92,278	\$ 820,439
Construction costs	1,070,177	-	1,070,177	-	-	1,070,177
Cost of sales	-	37,134	37,134	-	-	37,134
Demolition costs	-	472,134	472,134	-	-	472,134
Depreciation expenses	14,048	51,673	65,721	-	-	65,721
Equipment rental	2,246	41,208	43,454	-	-	43,454
Insurance	21,886	52,526	74,412	5,526	4,338	84,276
Interest	41,052	-	41,052	-	-	41,052
Office expense	5,372	5,622	10,994	6,452	4,947	22,393
Postage	-	-	-	1,299	3,031	4,330
Printing and newsletters	-	-	-	507	17,692	18,199
Professional fees & contract labor	2,584	207,928	210,512	60,959	-	271,471
Project recycling	-	13,074	13,074	-	-	13,074
Public relations	-	-	-	-	7,276	7,276
Rent	19,841	268,842	288,683	3,914	14,532	307,129
Repairs and maintenance	30,349	34,019	64,368	380	-	64,748
Small tools	7,089	7,421	14,510	-	-	14,510
Supplies	17,509	21,653	39,162	-	-	39,162
Property taxes and interest	27,781	-	27,781	-	-	27,781
Tithe to HFHI	57,747	13,280	71,027	-	-	71,027
Training and education	378	-	378	161	1,762	2,301
Travel	8,525	52,980	61,505	3,248	3,001	67,754
Utilities	5,788	61,644	67,432	656	1,620	69,708
Gain on disposal of assets	(2,389)	-	(2,389)	-	-	(2,389)
Other	12,328	14,563	26,891	41,307	3,118	71,316
Total Expenses	<u>\$ 1,545,925</u>	<u>\$ 1,855,274</u>	<u>\$ 3,401,199</u>	<u>\$ 149,383</u>	<u>\$ 153,595</u>	<u>\$ 3,704,177</u>

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENT OF FUNCTIONAL EXPENSES
For the year ended June 30, 2013

	Construction	Restore	Total Program Services	Management and General	Fund Raising	Total
Compensation	\$ 146,799	\$ 338,105	\$ 484,904	\$ 94,778	\$ 92,644	\$ 672,326
Community center expenses	878,269	-	878,269	-	-	878,269
Cost of sales	-	30,103	30,103	-	-	30,103
Demolition costs	-	401,432	401,432	-	-	401,432
Depreciation expense	15,930	24,490	40,420	-	-	40,420
Equipment rental	145	39,328	39,473	-	-	39,473
Insurance	15,267	32,787	48,054	5,141	5,135	58,330
Interest	57,478	-	57,478	-	-	57,478
Inventory value adjustment	-	271,590	271,590	-	-	271,590
Office expense	2,710	3,907	6,617	8,203	4,427	19,247
Postage	72	-	72	1,244	3,406	4,722
Printing and newsletters	-	28	28	336	11,526	11,890
Professional fees & contract labor	3,953	163,174	167,127	106,144	-	273,271
Project recycling	-	16,782	16,782	-	-	16,782
Public relations	-	-	-	-	7,332	7,332
Rent	15,626	151,575	167,201	15,626	15,626	198,453
Repairs and maintenance	26,506	12,262	38,768	300	-	39,068
Small tools	3,236	6,150	9,386	-	-	9,386
Supplies	15,228	11,772	27,000	-	-	27,000
Property taxes and interest	-	-	-	6,994	-	6,994
Tithe to HFHI	78,420	631	79,051	-	-	79,051
Training and education	488	-	488	1,790	150	2,428
Travel	5,489	54,828	60,317	3,701	3,509	67,527
Utilities	2,743	38,025	40,768	2,742	2,743	46,253
Loss on disposal of fixed assets	14,950	-	14,950	3,874	-	18,824
Other	6,026	4,449	10,475	13,299	822	24,596
Total Expenses	\$ <u>1,289,335</u>	\$ <u>1,601,418</u>	\$ <u>2,890,753</u>	\$ <u>264,172</u>	\$ <u>147,320</u>	\$ <u>3,302,245</u>

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
STATEMENTS OF CASH FLOWS

	For the years ended June 30,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 252,973	\$ 342,320
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Depreciation	65,721	40,420
Donated property and equipment	-	(2,950)
Sale of homes	(410,340)	(497,702)
Amortization of discount	(338,514)	(253,803)
Loss on land and buildings held for resale	-	14,950
Inventory valuation adjustment	-	271,590
Change in assets and liabilities that (used) provided cash:		
Prepaid expenses	60,395	(85,811)
Inventory	(7,639)	(2,851)
Construction in progress	16,226	(53,934)
Land held for future construction	343,582	(89,315)
Accounts payable	(5,826)	50,046
Accrued liabilities	17,450	(10,459)
Escrow funds	(3,679)	392
Net cash used by operating activities	<u>(9,651)</u>	<u>(277,107)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Collections on mortgages receivable	581,912	468,033
Proceeds from sale of land and buildings held for resale	-	30,728
Loss on disposal of property	-	3,874
Purchase of property and equipment	<u>(91,250)</u>	<u>(118,357)</u>
Net cash provided by investing activities	<u>490,662</u>	<u>384,278</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable	<u>(359,852)</u>	<u>(271,655)</u>
Net cash used by financing activities	<u>(359,852)</u>	<u>(271,655)</u>
NET INCREASE (DECREASE) IN CASH	121,159	(164,484)
CASH AT BEGINNING OF YEAR	<u>1,149,949</u>	<u>1,314,433</u>
CASH AT END OF YEAR	<u>\$ 1,271,108</u>	<u>\$ 1,149,949</u>
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for interest	<u>\$ 41,052</u>	<u>\$ 57,478</u>

See independent auditors' report and accompanying notes to the financial statements

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Habitat for Humanity Northwest Harris County (the Organization) is presented to assist in understanding the Organization's financial statements. The financial statements and notes are representations of the Organization's management who is responsible for their integrity and objectivity. These accounting policies conform to generally accepted accounting principles (GAAP) and have been consistently applied in the preparation of the financial statements.

Nature of Business

The Organization was incorporated on February 21, 1989 to encourage, promote, and assist in the building and redevelopment of low-income housing in Cypress-Fairbanks, Klein, Spring, and Tomball school districts. The Organization is an affiliate of Habitat for Humanity International, Inc. (HFHI), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make a decent shelter a matter of conscience with people everywhere. Although HFHI assists with information, resources, training, publications and prayer support, the Organization is primarily and directly responsible for its operations.

The Organization's purpose is accomplished through a privately operated and financed program to sell such housing to low-income persons at or below actual cost utilizing non-interest bearing mortgage loans. The Organization expects to finance its operations through continuing contributions and mortgage payment receipts.

The Organization has established the ReStore program to operate a resale store in order to generate additional income and to extend the mission of the Organization by providing low cost donated materials for low income homeowners to repair and improve their houses. The Organization accepts donations of building materials, supplies, furniture and appliances for the store and also receives inventory from deconstructed homes where the donor pays the Organization for deconstruction services and the Organization retains usable items from the deconstructed homes.

Use of Estimates

The preparation of the financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from the estimates.

Cash and Cash Equivalents

For purposes of the statements of cash flows, the Organization considers all unrestricted, highly liquid investments with a maturity of three months or less to be cash equivalents. Included in cash and cash equivalents are homeowners' escrow payments for insurance and real estate taxes and deposits held for future homeowners.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Mortgages Receivable, Net

Mortgages receivable, net represents the amount charged to the homeowner for houses built and secured with real estate that are to be paid back over a mutually established period of time. These mortgages are typically paid back on a monthly basis. Generally, the Organization's mortgages are non-interest-bearing. The mortgage receivable balance has been discounted to reflect the economic value using interest rates ranging from 7.4% to 9% based on prevailing market rates in the year the mortgage was originated. This discount is recognized as income over the life of the mortgage, utilizing the straight-line method.

Concentrations of Credit Risk

Financial instruments which potentially subject the Organization to concentrations of credit risk consist principally of cash and mortgages receivable. The Organization places its cash with high credit quality financial institutions. Deposits with financial institutions may exceed the amount of federal deposit insurance provided on such deposits; however, these deposits typically may be redeemed upon demand and therefore, bear minimal risk. In monitoring this credit risk, the Organization periodically evaluates the stability of the financial institutions.

Mortgages receivable from homeowners are closely monitored for collectability. The Organization has a formal plan for notifying and working with homeowners that become past due. The Organization commences foreclosure proceedings if a mortgage becomes more than seventy days past due and a mutually acceptable payment plan has not been reached. Management believes no allowance for uncollectible accounts is necessary at June 30, 2014 and 2013.

Inventory

Inventory consists of purchased building materials, furniture, and other merchandise available for sale. Purchased inventory is recorded at the lower of cost or market determined by the specific identification method. Donated inventory is considered not to have value until it is sold.

Construction in Progress

Construction in progress includes direct costs of materials and labor incurred on homes while under the construction phase until the sale of the home to the homeowner is closed.

Land Held for Future Construction

Land held for future construction includes the cost of land and related construction site readiness costs such as concrete, security fencing and landscaping. When homes are completed and the sale of the home to the homeowner has closed, the applicable cost of the lot is reported as construction costs.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Purchased property and equipment are recorded at cost. Donated property and equipment are recorded at fair value at the date of donation. If donors stipulate how long the assets must be used, the contributions are recorded as restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support. Buildings and equipment used in operations are depreciated using the straight-line method based on the estimated useful lives of the assets, generally as follows:

Computers and vehicles	3-5 years
Office equipment and furniture	5-7 years
Warehouse equipment	5-10 years
Leasehold improvements	5 years

Escrow Funds

Homeowner payments are held in escrow for insurance, real estate taxes and homeowners association dues until remitted to the various vendors.

Income Taxes

The Organization is exempt from federal income taxes under Internal Revenue Code Section 501(c)(3). However, the Organization is subject to taxes on unrelated business income. During 2014 and 2013, there was no unrelated business income.

The Organization believes that all significant tax positions utilized will more likely than not be sustained upon examination. As of June 30, 2014, the tax years that remain subject to examination by the major tax jurisdictions under the statute of limitations are from the fiscal year 2009 forward (with limited exceptions). Tax penalties and interest, if any, would be accrued as incurred and would be classified as general and administrative expense in the statements of activities.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Net Assets

Information regarding the financial position and activities of the Organization is reported in three categories as follows:

Unrestricted Net Assets - represent expendable funds available for operations which are not otherwise limited by donor restrictions.

Temporarily Restricted Net Assets - consist of contributed funds subject to donor imposed restrictions related to a specific purpose or requiring a specific passage of time before the funds can be spent.

Permanently Restricted Net Assets - are subject to irrevocable donor restrictions requiring the assets be maintained in perpetuity for the purpose of generating investment income to fund current operations. As of June 30, 2014 and 2013, the Organization did not have any permanently restricted net assets.

Contributions

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor for future periods or a specific purpose are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restriction. 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. When a restriction is met in the same year as the restricted contribution, the contribution is treated as an unrestricted contribution. Permanently restricted contributions consist of amounts to be held perpetually, based on donor-imposed requirements.

Unconditional promises to give that are expected to be collected within one year are recorded at their realizable value. Unconditional promises to give that are expected to be collected after one year or more are recorded at the present value of estimated future cash flows. The discounts on those amounts are computed using a risk-free interest rate applicable to the year in which the promise is received. Amortization of the discount is included as contribution revenue. Conditional promises to give are not included as support until such time as the conditions are substantially met.

The Organization reports gifts of goods and services at the fair market value of the donation when a clear objective basis of determining the value is available. A substantial number of volunteers donate significant contributions of their time to the Organization in the areas of administration, fundraising and house construction. The Organization records the fair value of contributed services that require specialized skills and are provided by individuals with those skills and that would otherwise need to be purchased if not provided by donation. The value of the contributed time not meeting these criteria is not reflected in these financial statements.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Contributions (continued)

For the years ended June 30, 2014 and 2013, the Organization has recorded donated professional services of \$21,169 and \$25,336, respectively.

Sale of Homes, Net

Represents the sale of houses built and are recorded at the mortgage amount less down payment provided by government grants and net of the interest discount.

Functional Expenses

Functional expenses which cannot readily be related to a specific program are charged to the various programs based upon hours worked, square footage, number of program staff or other reasonable methods for allocating the Organization's multiple functional expenditures.

Reclassifications

Certain amounts in the 2013 financial statements have been reclassified for comparative purposes to conform to the 2014 presentation.

Date of Management Evaluation

Management has evaluated events through December 2, 2014, the date the financial statements were available to be issued.

NOTE B – MORTGAGES RECEIVABLE, NET

Mortgages receivable consist of the following at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Receivables due in less than one year	\$ 467,545	\$ 445,181
Receivables due in one to five	2,282,477	2,196,609
Thereafter	<u>3,894,215</u>	<u>3,543,359</u>
	6,644,237	6,185,149
Discount	<u>(3,622,972)</u>	<u>(3,330,826)</u>
Mortgages receivable, net	<u>\$ 3,021,265</u>	<u>\$ 2,854,323</u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE C – CONSTRUCTION IN PROGRESS

Construction in progress represents building materials and labor on houses. The following is a summary of construction in progress at June 30, 2014 and 2013:

	<u>Number</u>	<u>Cost</u>
Homes under construction, June 30, 2012	8	\$ 207,912
Costs incurred on homes under construction		255,773
New homes started during the year	13	474,582
Homes transferred during the year	<u>(12)</u>	<u>(676,421)</u>
Homes under construction, June 30, 2013	9	261,846
Costs incurred on homes under construction		206,118
New homes started during the year	16	563,176
Homes transferred during the year	<u>(12)</u>	<u>(785,520)</u>
Homes under construction, June 30, 2014	<u>13</u>	<u>\$ 245,620</u>

NOTE D – FURNITURE, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

At June 30, 2014 and 2013, the cost and accumulated depreciation of furniture, equipment and leasehold improvements were as follows:

	<u>2014</u>	<u>2013</u>
Computer equipment	\$ 51,086	\$ 44,653
Office equipment	33,772	28,104
Warehouse equipment	64,623	42,110
Furniture and fixtures	42,838	27,878
Vehicles	161,643	136,944
Leasehold improvements	<u>61,639</u>	<u>44,662</u>
	415,601	324,351
Accumulated depreciation	<u>(183,885)</u>	<u>(118,164)</u>
	<u>\$ 231,716</u>	<u>\$ 206,187</u>

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE E – NOTE PAYABLE

Construction loan payable to a bank providing for maximum borrowings of \$2,737,100 bearing interest at 5.3%, due in monthly installments through January 31, 2012 then principal and interest due monthly based on ten year amortization of balance outstanding at January 31, 2012, maturing December 1, 2017 with a balloon payment due at that date. The note is secured by essentially all assets of the Organization. Future principal payments by fiscal year as of June 30, 2014 are:

2015	\$ 117,624
2016	135,080
2017	142,416
2018	139,115
2019	-
Thereafter	-
	<hr/>
	\$ 534,235
	<hr/>

NOTE F – INVENTORY VALUATION ADJUSTMENT

In 2013, the Organization has determined that it is unable to value donated inventory to the Restore Program since donated inventory can only be accurately valued once it has been sold. Since the Organization is unable to accurately value donated inventory, the Organization wrote off \$271,590 of donated inventory during 2013.

NOTE G – RELATED PARTIES

HFHI is a charitable 501(c)(3) corporation that donates electrical, paint, and plumbing supplies to the Organization. HFHI is controlled by a Board of Directors separate from that of the Organization; therefore consolidated financial statements are not required. Donations are recorded as in-kind contributions. The amount recorded during fiscal 2014 and 2013 amounted to \$41,874 and \$91,727, respectively.

In addition, the Organization elects to tithe a portion of its annual contributions (excluding in-kind and restricted contributions) to HFHI. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2014 and 2013, the Organization contributed \$71,027 and \$79,051 to HFHI, respectively.

The Organization received approximately \$26,235 and \$59,040 in contributions from Board Members in fiscal year 2014 and 2013, respectively.

HABITAT FOR HUMANITY NORTHWEST HARRIS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
For the years ended June 30, 2014 and 2013

NOTE H – LEASE COMMITMENTS

The Organization leases office space under an operating lease expiring in 2023 with future commitments by fiscal year as follows:

2015	\$	293,559
2016		293,559
2017		293,559
2018		293,559
2019		318,255
Thereafter		<u>1,346,644</u>
	\$	<u><u>2,839,135</u></u>

Rent expense amounted to \$307,129 and \$198,453 for 2014 and 2013, respectively.

NOTE I – CONTINGENCIES

Amounts received from government and other grants require the fulfillment of certain conditions as set forth in the grant contracts. The Organization intends to fulfill the conditions of all grants, recognizing that failure to fulfill the conditions could result in the return of the funds to grantors. Amounts received or receivable from grantor agencies are subject to audit and adjustment by the grantor agencies. Any disallowed claims, including amounts already collected, could become a liability of the Organization. In management's opinion, disallowed claims, if any, would not have a material adverse effect on the Organization's financial position or results of operations.