Habitat for Humanity®
Portland/Metro East

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2017

with

Independent Auditors' Report

HABITAT FOR HUMANITY PORTLAND/METRO EAST

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Independent Auditors' Report

The Board of Directors
Habitat for Humanity Portland/Metro East

Report on the Consolidated Financial Statements

We have audited the accompanying consolidated financial statements of Habitat for Humanity Portland/Metro East and subsidiaries, which comprise the consolidated statement of financial position as of June 30, 2017, and the related consolidated statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated 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 consolidated 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 consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Portland/Metro East and subsidiaries as of June 30, 2017, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in *Note 1* to the consolidated financial statements, effective July 1, 2016, management has elected to change its method for presenting debt issuance costs in the consolidated statement of financial position. Our opinion is not modified with respect to this matter.

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity Portland/Metro East's 2016 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 8, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

Hoffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon
October 31, 2017

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Financial Position

June 30, 2017 *(With Comparative Amounts for 2016)*	**2017**	**2016**
ASSETS		
Cash and cash equivalents	$ 1,443,711	$ 1,834,522
Cash held for escrow and maintenance *(Note 7)*	161,738	143,238
Grants and other receivables - net	527,799	744,010
Mortgages receivable - net *(Notes 2 and 8)*	9,452,573	8,181,956
Inventories *(Notes 3 and 8)*	6,537,972	5,499,840
Prepaid expenses and deposits	221,628	191,160
Investment in limited partnerships *(Note 4)*	5,864,314	5,864,314
Restricted cash *(Note 4)*	179,389	231,650
Property and equipment - net *(Notes 5 and 8)*	789,667	598,306
Total assets	**$ 25,178,791**	**$ 23,288,996**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 454,426	$ 470,135
Accrued payroll, PTO, and payroll taxes	204,595	170,601
Due to Habitat International and other affiliates *(Note 6)*	247,946	260,925
Escrow and maintenance *(Note 7)*	161,738	143,238
Notes payable *(Note 8)*	13,666,225	12,121,150
Total liabilities	**14,734,930**	**13,166,049**
Commitments and contingencies *(Notes 4, 12, 13, 14, and 15)*		
Net assets:		
Unrestricted:		
Undesignated	9,459,537	9,016,385
Designated *(Note 9)*	698,587	653,127
Total unrestricted	10,158,124	9,669,512
Temporarily restricted *(Note 10)*	285,737	453,435
Total net assets	**10,443,861**	**10,122,947**
Total liabilities and net assets	**$ 25,178,791**	**$ 23,288,996**

The accompanying notes are an integral part of the consolidated financial statements.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Activities

Year Ended June 30, 2017 *(With Comparative Totals for 2016)*

	Unrestricted	Temporarily Restricted	Total 2017	Total 2016
Revenue, gains, and other support:				
Sales - homes	$ 4,927,650	$ -	$ 4,927,650	$ 4,218,053
Resale stores:				
Inventory sales	3,488,204	-	3,488,204	3,434,818
Less: Cost of goods sold	(3,550,639)	-	(3,550,639)	(3,439,237)
Net loss - Resale stores	(62,435)	-	(62,435)	(4,419)
Contributions and grants	1,457,620	706,075	2,163,695	2,457,867
Noncash contributions - Resale stores	3,570,419	-	3,570,419	3,438,158
Noncash contributions - other	1,059,086	35,000	1,094,086	802,740
Amortization of discount on mortgages receivable	561,091	-	561,091	771,741
Net gain from sale of mortgages receivable *(Note 2)*	736,987	-	736,987	529,845
Fundraising events - net of direct costs of $139,005 and $132,049, respectively	271,153	-	271,153	282,883
Other - net	352,370	26,641	379,011	299,306
Net assets released from restrictions *(Note 11)*	935,414	(935,414)	-	-
Net revenue, gains, and other support	**13,809,355**	**(167,698)**	**13,641,657**	**12,796,174**
Expenses:				
Program services:				
Homeownership	9,020,480	-	9,020,480	9,735,739
Resale stores	2,951,709	-	2,951,709	2,180,067
Total program services	11,972,189	-	11,972,189	11,915,806
Supporting services:				
Development	771,496	-	771,496	774,119
Management and general	577,058	-	577,058	660,101
Total supporting services	1,348,554	-	1,348,554	1,434,220
Total expenses	**13,320,743**	**-**	**13,320,743**	**13,350,026**
Increase (decrease) in net assets	**488,612**	**(167,698)**	**320,914**	**(553,852)**
Net assets, beginning of year	9,669,512	453,435	10,122,947	10,676,799
Net assets, end of year	**$ 10,158,124**	**$ 285,737**	**$ 10,443,861**	**$ 10,122,947**

The accompanying notes are an integral part of the consolidated financial statements.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Functional Expenses

Year Ended June 30, 2017 *(With Comparative Totals for 2016)*

	Program Services					Total	
	Home-ownership	**Resale Stores**	**Total**	**Development**	**Management and General**	**2017**	**2016**
Cost of homes sold	$ 4,306,580	$ -	$ 4,306,580	$ -	$ -	$ 4,306,580	$ 4,719,368
Discounts granted on mortgages	2,004,852	-	2,004,852	-	-	2,004,852	2,391,797
	6,311,432	-	6,311,432	-	-	6,311,432	7,111,165
Cost of goods sold - resale stores	-	3,550,639	3,500,639	-	-	3,550,639	3,439,237
Salaries and wages	1,192,469	1,387,539	2,580,008	389,796	185,971	3,155,775	2,665,405
Employee benefits and payroll taxes	243,409	295,632	539,041	82,024	31,755	652,820	532,721
Fees for services	79,030	75,697	154,727	135,588	90,124	380,439	310,505
Advertising and promotion	9,927	13,024	22,951	-	68,849	91,800	118,169
Office expenses	19,387	18,932	38,319	8,315	41,289	87,923	81,203
Information technology	33,645	592	34,237	11,055	4,151	49,443	33,851
Occupancy	22,536	829,889	852,425	10,339	7,980	870,744	531,698
Travel	35,603	67,030	102,633	5,963	2,319	110,915	97,011
Interest expense	260,060	-	260,060	598	490	261,148	243,122
Allocations to affiliates *(Note 6)*	536,884	-	536,884	30,928	123,711	691,523	1,028,576
Depreciation and amortization	37,164	55,499	92,663	12,411	4,642	109,716	113,777
Insurance	60,810	53,914	114,724	13,351	5,673	133,748	92,239
NRI program expense	49,627	-	49,627	-	-	49,627	34,617
Outreach and support	55,302	44,138	99,440	32,821	3,556	135,817	132,062
Bad debt	-	-	-	17,232	-	17,232	22,400
Warranty costs	-	-	-	-	-	-	5,946
Special event costs:							
Food and facility	-	-	-	139,005	-	139,005	132,049
Other expenses	73,195	109,823	183,018	21,075	6,548	210,641	195,559
Total expenses	9,020,480	6,502,348	15,522,828	910,501	577,058	17,010,387	16,921,312
Less: Expenses netted with revenue on consolidated statement of activities	-	(3,550,639)	(3,550,639)	(139,005)	-	(3,689,644)	(3,571,286)
Total expenses per consolidated statement of activities	$ 9,020,480	$ 2,951,709	$ 11,972,189	$ 771,496	$ 577,058	$ 13,320,743	$ 13,350,026

The accompanying notes are an integral part of the consolidated financial statements.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Cash Flows

Year Ended June 30, 2017 *(With Comparative Totals for 2016)*	**2017**	**2016**
Cash flows from operating activities:		
Cash receipts:		
Principal payments on mortgages receivable and down payments on sales of homes	$ 908,822	$ 912,619
Resale stores	3,425,769	3,431,979
Contributions and grants	2,670,959	2,050,303
Other	335,870	271,665
	7,341,420	6,666,566
Cash disbursements:		
Land purchases and home construction costs	2,445,523	2,758,823
Payroll and related expenses	3,774,601	3,165,040
Interest	177,312	164,029
Allocations to affiliates	704,502	1,029,496
Other	2,118,857	1,549,881
	9,220,795	8,667,269
Net cash used by operating activities	**(1,879,375)**	**(2,000,703)**
Cash flows from investing activities:		
Proceeds from sale of mortgages receivable	2,041,437	1,522,274
Repurchase of a mortgage receivable	-	(112,837)
Investment in limited partnership	-	(100,000)
Proceeds from sale of equipment	16,500	-
Purchases of property and equipment	(270,517)	(163,516)
Net cash provided by investing activities	**1,787,420**	**1,145,921**
Cash flows from financing activities:		
Principal payments on capital lease obligations	(6,637)	(14,416)
Net proceeds from notes payable	47,116	655,689
Principal payments on notes payable	(339,335)	(316,445)
Net cash provided (used) by financing activities	**(298,856)**	**324,828**
Net decrease in cash and cash equivalents	**(390,811)**	**(529,954)**
Cash and cash equivalents, beginning of year	1,834,522	2,364,476
Cash and cash equivalents, end of year	**$ 1,443,711**	**$ 1,834,522**

The accompanying notes are an integral part of the consolidated financial statements.

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Cash Flows - Continued

Year Ended June 30, 2017 *(With Comparative Totals for 2016)*	**2017**	**2016**
Reconciliation of increase (decrease) in net assets to net cash used by operating activities:		
Increase (decrease) in net assets	$ 320,914	$ (553,852)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation and amortization	109,716	113,777
Discounts granted on notes payable	(26,641)	(16,760)
Amortization of discount on notes payable	24,965	24,163
Change in unamortized debt issuance costs	48,970	43,598
New mortgages granted	(4,927,650)	(4,218,053)
Discounts granted on mortgages receivable	2,004,852	2,391,797
Amortization of discount on mortgages receivable	(561,091)	(771,741)
Net gain from sale of mortgages receivable	(736,987)	(529,845)
Contributed equipment	(30,560)	-
Contributed land held for development	(780,000)	(349,000)
(Gain) loss on sale or disposal of equipment	(16,500)	451
Notes payable forgiven	-	(350,000)
(Increase) decrease in:		
Grants receivable and other receivables	216,211	(231,119)
Mortgages receivable	908,822	912,619
Inventories	1,531,868	1,522,058
Prepaid expenses and deposits	(30,468)	(50,369)
Restricted cash	52,261	50,982
Increase (decrease) in:		
Accounts payable and accrued expenses	(9,072)	(21,575)
Accrued payroll, PTO, and payroll taxes	33,994	33,086
Amounts due Habitat International and other affiliates	(12,979)	(920)
Net cash used by operating activities	**$ (1,879,375)**	**$ (2,000,703)**
Supplemental disclosures of non-cash investing and financing activities:		
Inventory acquired in exchange for outstanding mortgages receivable	$ -	$ 257,869
Land held for development financed through note payable	1,790,000	610,422
Investment in limited partnership financed through note payable	-	1,517,737
Restricted cash acquired through note payable	-	119,302
Equipment financed through note payable and capital lease obligation	-	62,095

The accompanying notes are an integral part of the consolidated financial statements.

1. Significant Accounting Policies

Organization - Habitat for Humanity Portland/Metro East (the Organization) is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian not-for-profit organization whose purpose is to create decent, simple housing for those in need, and to make decent shelter a matter of conscience everywhere. Although Habitat International assists with information, resources, training, publications, and in other ways, the Organization is primarily and directly responsible for the legal, organizational, fundraising, family selection and nurture, financial, and construction aspects of the work. The Organization, through its many volunteers, constructs affordable housing in the Portland metropolitan area, transfers the homes to qualified families at below-market prices, and provides non-interest-bearing mortgage loans.

Basis of Accounting - The accompanying consolidated financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP).

Principles of Consolidation - The accompanying consolidated financial statements include the assets, liabilities, and activities of the Organization, HFHPME Company, LLC, HFHPME Company II, LLC, and HFH Real Estate, LLC. HFHPME Company, LLC and HFHPME Company II, LLC are both wholly owned subsidiaries of the Organization and were formed solely to obtain specific financing. HFH Real Estate, LLC is also a wholly owned subsidiary of the Organization and was formed for the purpose of owning, operating, maintaining, and disposing of property. All intercompany balances and transactions have been eliminated upon consolidation.

Basis of Presentation - Net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified as follows:

Unrestricted net assets - Net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met by actions of the Organization and/or the passage of time.

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that require they be maintained permanently by the Organization. The Organization did not have any permanently restricted net assets at June 30, 2017 or 2016.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

1. Significant Accounting Policies - Continued

Use of Estimates - The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements. Estimates also affect the reported amounts of revenues and expenses during the period. Actual results could differ from those estimates.

Significant estimates made by management include the valuation of donated resale store inventory, discounts on mortgages receivable and notes payable, the allocation of expenses by functional classification, and depreciation and amortization expense (based on the estimated useful lives of the underlying assets).

Cash and Cash Equivalents - The Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Concentration of Credit Risk - The Organization's cash holdings (including cash and cash equivalents held for escrow and maintenance and restricted cash) are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. On occasion, amounts on deposit with financial institutions may exceed FDIC limits.

Inventories - Inventories consist of raw materials, construction in progress, land held for development, and homes available for sale. Inventories are stated at the lower of cost or market value for purchased items and estimated fair market value at the date of donation for donated items, determined by the first-in, first-out (FIFO) method. Land held for development is transferred to construction in progress once construction activity has begun on the respective properties.

Resale Store Sales and Resale Inventory - New and used building materials and supplies are donated to the Organization, some of which are resold. This inventory is stated at estimated fair value at the date of donation, determined by the FIFO method. Resale store revenue is recognized at the time of sale.

Investment in Limited Partnerships - The Organization's investment in limited partnerships are accounted for under the cost method.

Property and Equipment - Property and equipment are recorded at cost, if purchased, and at estimated fair market value, if donated. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the assets, ranging from 3 to 7 years for personal property, and 31.5 years for real property. Maintenance and repairs are charged to expense when incurred; major renewals and betterments are capitalized.

Deferred Rent Expense - The Organization records rent expense over the lease term on a straight-line basis for leases with fixed escalation clauses and periods of rent abatement. Accordingly, the Organization recognizes a deferred rent obligation to the extent that the straight-line recognition of rent expense exceeds required rental payments. Deferred rents are reduced when rent payments exceed the recognized amount of expense.

1. Significant Accounting Policies - Continued

Debt Issuance Costs - Debt issuance costs are amortized on a straight-line method over the life of the loan and netted against long-term debt. Amortization of debt issuance costs are included with interest expense.

Revenue Recognition - Contributions, including unconditional promises to give, are recognized as revenues in the period received. Conditional promises to give are not recognized until they become unconditional, that is, at the time when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value. Contributions to be received after one year are discounted at an appropriate discount rate commensurate with the risks involved. Amortization of the discount is recorded as additional contribution revenue in accordance with donor-imposed restrictions, if any, on the contributions.

The Organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. 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 consolidated statement of activities as net assets released from restrictions. Contributions received with donor-imposed restrictions that are met in the same year as received are reported as revenues in the temporarily restricted net asset class, and a reclassification to unrestricted net assets is made to reflect the expiration of such restrictions.

Contributions of assets other than cash (property, construction materials, equipment, vehicles, and supplies) are recorded at their estimated fair value. Contributions of donated services that create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased, if not provided by donation, (such as engineering, electrical, plumbing, etc.) and are recorded at their estimated fair values in the period received. Contributions of noncash assets and donated services received during the years ended June 30 were as follows:

	2017	**2016**
Construction materials and services	$ 282,311	$ 417,188
Land held for development	780,000	349,000
Equipment, supplies, and services	31,775	36,552
	$ 1,094,086	$ 802,740

A substantial number of volunteers donate significant amounts of their time to the Organization for general construction and office labor. However, as these services do not require specialized skills or materially enhance the value of nonfinancial assets, the value of such services is not recorded in the consolidated financial statements.

1. Significant Accounting Policies - Continued

Revenue Recognition - Continued - Sales of homes are recorded at the gross amount of payments to be received over the lives of the mortgages. Mortgages are non-interest bearing and have been discounted at various rates ranging from 3.44 to 4.2 percent for mortgages issued during the year ended June 30, 2017, and rates ranged from 7.39 to 9 percent for mortgages issued prior to June 30, 2016. The rates are based on the prevailing market rates at the inception of the mortgages. During the year ended June 30, 2017, the rates were based on the Freddie Mac 30 year fixed-rate mortgage rates and prior to June 30, 2016, rates were provided by Habitat International and were based on market rate data for low-income housing. Discounts are amortized using the effective interest method over the lives of the mortgages, and the amortization of mortgage discount is recognized as revenue.

Receivables - The Organization's receivables primarily consist of pledges, grants, and mortgages. Other receivables are recognized as goods or services are provided. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential defaults and an allowance for other receivables is provided based on specific identification of accounts. The Organization will write-off any balance that remains after it has exhausted all reasonable collection efforts. At June 30, 2017, the allowance for uncollectible pledges receivable totaled $9,442 and the allowance for other receivables totaled $25,025.

Pledges receivable due beyond one year have been discounted using percentage rates between 3 and 7.97. Gross outstanding pledges receivable of $29,542 are expected to be collected within one year, and the remaining $3,843 is expected to be collected between one and five years. Net pledges receivable (net of discount and the allowance for uncollectible pledges) were $23,228 at June 30, 2017, and are included in grants and other receivables in the accompanying consolidated statement of financial position. Grants receivable are all expected to be collected within one year.

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 Organization 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 the Organization may accept a deed in lieu of foreclosure where homeowner mortgage payments are seriously delinquent. Properties acquired through foreclosure or a deed in lieu of foreclosure are generally refurbished and sold to other families in need of decent, affordable housing. Consequently, no allowance for credit losses has been established for mortgages receivable at June 30, 2017 and 2016.

1. Significant Accounting Policies - Continued

Receivables - Continued - In connection with the issuance of the original non-interest bearing mortgages, in some cases the Organization also issues a second mortgage. These second mortgages represent the difference between the original mortgage and the appraised value of the home. In many cases, they are due to the Organization either in part or in full, only if the homeowner does not comply with the terms of the original mortgage and in certain cases, they are due to the Organization at the maturity of the first mortgage. The second mortgage is to protect the value of the collateral. At June 30, 2017, Habitat has not recorded a receivable related to second mortgages that are due either in part or in full, if the homeowner does not comply with terms of the original mortgage, as management has determined that no triggering events have occurred that would require they be recognized in the consolidated financial statements. Second mortgages that are due at the maturity (regardless of homeowner compliance) of the first mortgage have been recorded and are included in the consolidated financial statements.

Warranties - The Organization provides a one year warranty on all of its homes. The warranty is generally for defects in materials and/or workmanship. Warranty costs are expensed as incurred.

Advertising Expense - Advertising costs are charged to expense when incurred. Total advertising expense was $84,654 for the year ended June 30, 2017.

Income Taxes - The Organization is exempt from Federal and state income taxation under Section 501(c)(3) of the Internal Revenue Code and similar state provisions. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A) and has been classified as an organization that is not a private foundation under Section 509(a)(2). HFHPME Company, LLC, HFHPME Company II, LLC, and HFH Real Estate, LLC are disregarded entities for Federal and state income tax purposes.

GAAP prescribes a recognition threshold and a measurement process for accounting for uncertain tax positions, and provides guidance on various related matters such as interest, penalties, and required disclosures. Management believes the Organization does not have any uncertain tax positions. The Organization files informational returns. Generally, these returns are subject to examination by income tax authorities for a period of three years from the filing of the return. The Organization has not paid any interest or penalties related to its income tax positions, and there are currently no audits of any tax periods in progress. Interest or penalties assessed by taxing authorities, if any, would be included with management and general expenses.

Functional Allocation of Expenses - Costs of providing various program and other activities have been summarized on a functional basis in the consolidated statement of functional expenses. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Subsequent Events - Management has evaluated subsequent events through October 31, 2017, the date the consolidated financial statements were available to be issued.

1. Significant Accounting Policies - Continued

Statement of Financial Position Classification of Debt Issuance Costs - Effective July1, 2016, the Organization adopted the provisions of Accounting Standards Update (ASU) 2015-03, *Interest Imputation of Interest: Simplifying the Presentation of Debt Issuance Costs*, issued by the Financial Accounting Standards Board, which requires debt issuance costs related to a recognized debt liability to be presented in the consolidated statement of financial position as a direct deduction from the carrying amount of that debt liability. The adoption of this ASU has been applied retrospectively. The nature and reason for this change is a direct result of the guidance issued by the FASB. As a result of the adoption of this accounting principle, debt issuance costs of $433,491 have been reclassified from intangible assets to a direct deduction from notes payable in the June 30, 2016, consolidated statement of financial position.

In addition, as required by the ASU, amortization of debt issuance costs is included as a component of interest expense. The Organization amortizes these costs on a straight-line method over the life of the underlying loan *(Note 8)*.

Reclassifications - Certain reclassifications have been made to the 2016 consolidated financial statements to conform with the 2017 presentation.

Summarized Financial Information for 2016 - The consolidated financial statements include certain prior year summarized comparative information. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with the Organization’s consolidated financial statements for the year ended June 30, 2016, from which the summarized financial information was derived.

2. Mortgages Receivable - Net

	2017	2016
Mortgages receivable	18,243,162	16,955,835
Discount on mortgages receivable	(8,790,589)	(8,773,879)
Mortgages receivable - net of discount	$ 9,452,573	$ 8,181,956

During the year ended June 30, 2017, mortgages receivable with a carrying value of $1,304,450 (net of discounts) were sold without recourse for $2,041,437. A gain of $736,987 was recognized as a result of the sale.

Mortgage principal payments totaling $35,808 were in arrears related to mortgages receivable with an outstanding balance of $873,692 at June 30, 2017. A provision for impairment of loans has not been recorded since the Organization holds the trust deeds as security on the mortgages.

3. Inventories

	2017	2016
Raw materials:		
Construction	$ 41,614	$ 61,927
Resale stores	249,889	167,674
Construction in progress	1,392,087	2,583,156
Land held for development	4,537,415	2,006,130
Homes available for sale	316,967	680,953
	$ 6,537,972	$ 5,499,840

Construction in progress, land held for development, and homes available for sale all reflect costs incurred to construct homes for program families. Once completed, the homes will be sold to qualified families, and the cost of homes sold will be recorded. At June 30, 2017, four homes were available for sale.

4. Investment in Limited Partnerships and Restricted Cash

The Organization has invested in three limited partnerships (HFHI-SA Leverage VII, LLC, CCML Leverage II, LLC, and HFHI NMTC Leverage Lender 2013-1, LLC) to take advantage of new markets tax credit (NMTC) financing. In 2011, the Organization made an initial investment of $2,826,430 in exchange for a 17.15 percent ownership interest in HFHI-SA Leverage VII, LLC. In 2013, the Organization made an initial investment of $1,431,009 in exchange for a 9.09 percent ownership in CCML Leverage II, LLC. In August 2015, the Organization made an initial investment of $1,617,737 in exchange for a 10.49 percent ownership in HFHI NMTC Leverage Lender 2013-1, LLC.

NMTC financing allowed the Organization to receive loans from HFHI-SA IV, LLC, CCM Community Development XXVII, LLC, and HFHI NMTC Sub-CDE 1, LLC (the lenders) *(Note 8)*, who in exchange will receive a 39 percent Federal tax credit over a seven year period. The Organization must comply with various Federal requirements during this time, and loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low-income individuals. The tax credits are subject to recapture if these compliance requirements are not satisfied during the seven year compliance period. At the end of the compliance periods, outside investors that are upstream effective owners of the lenders are expected to exercise a put and call option, which will effectively allow the Organization to extinguish the remaining debt owed to the lenders.

As part of these transactions, the Organization was required to establish restricted cash accounts to be used to pay for various fees and compliance costs that will be incurred over the compliance period. These restricted cash account balances were $179,389 at June 30, 2017.

The Organization’s investment in limited partnerships was $5,864,314 at June 30, 2017.

5. Property and Equipment - Net

	2017	2016
Land	$ 80,081	$ 80,081
Building	591,113	569,784
Construction equipment	37,247	37,247
Office equipment and computer software	146,829	104,044
Leased equipment	38,495	38,495
Warehouse equipment	554,872	327,535
Vehicles	151,481	173,357
	1,600,118	1,330,543
Less accumulated depreciation and amortization	(810,451)	(732,237)
Property and equipment - net	$ 789,667	$ 598,306

5. Property and Equipment - Net - Continued

At June 30, 2017, the Organization had property acquired via capital lease with a cost of $38,495. Management believes the lease obligation is immaterial, and has included the unpaid obligation of $31,627 as a component of accounts payable and accrued expenses.

6. Allocations to Affiliates

The Organization annually remits a portion of its unrestricted contributions (excluding in-kind contributions and grants) to Habitat International. These funds are used to construct homes in economically depressed areas around the world.

The Organization also administers its resale inventory program with two other local Portland metropolitan area affiliates. The Organization allocates 33 percent of net proceeds from the program to each of the two local affiliates with the remaining 34 percent retained by the Organization.

The following table provides a summary of allocations to affiliates for the year ended June 30, 2017:

	Habitat International	Local Affiliates	Total
Amount accrued, beginning of year	$ 58,667	$ 202,258	$ 260,925
Amount allocated during the year	199,580	491,943	691,523
Amount paid during the year	(193,856)	(510,646)	(704,502)
Amount accrued, end of year	$ 64,391	$ 183,555	$ 247,946

7. Escrow and Maintenance Accounts

The Organization maintains escrow and maintenance accounts on behalf of homeowners. These accounts are used to collect homeowner deposits to be used to pay escrow expenses (such as property taxes and homeowners' insurance premiums) and for the payment of maintenance expenses on properties that share common facilities. The total balance of these accounts at June 30, 2017, was $161,738.

8. Notes Payable

	2017	2016
Notes payable issued in connection with NMTC financing:		
Note payable to HFHI-SA NMTC IV, LLC. Interest on the note is .75 percent (including net unamortized debt issuance costs of $42,587 and $66,544 at June 30, 2017 and 2016, respectively) and the note is secured by certain home inventory. Semi-annual interest payments of $14,103 due through June 2018, at which time semi-annual principal and interest payments are due in an amount sufficient to fully amortize the remaining principal balance. The note is due January 2026.	$ 3,718,100	$ 3,694,143
Note payable to CCM Community Development XXVII, LLC. Interest on the note is .76 percent (including net unamortized debt issuance costs of $38,429 and $47,016 at June 30, 2017 and 2016, respectively) and the note is secured by certain home inventory. Semi-annual interest payments of $7,156 due through November 2020, at which time semi-annual principal and interest payments are due in an amount sufficient to fully amortize the remaining principal balance. The note is due July 2028.	1,841,571	1,832,984
Note payable to HFHI NMTC Sub-CDE I, LLC. Interest on the note is .68 percent (including net unamortized debt issuance costs of $134,234 and $139,000 at June 30, 2017 and 2016, respectively) and the note is secured by home inventory. Semi-annual interest payments of $8,089 due through November 2023, at which time semi-annual principal and interest payments are due in an amount sufficient to fully amortize the remaining principal balance. The note is due December 2044.	2,237,318	2,232,552
Total notes payable issued in connection with NMTC financing	7,796,989	7,759,679

8. Notes Payable - Continued

	2017	**2016**
Other notes payable:		
Note payable to Habitat for Humanity International, Inc. at 3.8 percent interest (including net unamortized debt issuance costs of $2,203 and $2,917 at June 30, 2017 and 2016, respectively) secured by certain mortgages on existing homes of the Organization. Quarterly payments of $21,720, including principal and interest through June 2020.	243,035	318,076
19 notes payable (17 in 2016) to Habitat for Humanity International, Inc. (SHOP notes) at zero percent interest, discounted at rates ranging from 7.5 to 7.69 percent, unsecured. Monthly payments ranging from $36 to $1,406 through July 2023.	325,945	358,000
Two notes payable (one in 2016) to Habitat for Humanity of Oregon at zero percent interest, discounted at 7.5 percent, secured by certain inventory. Monthly payments range between $417 and $833, and are due through March 2022.	49,565	7,069
Note payable to Pacific Continental Bank, secured by specific mortgages receivable (including net unamortized debt issuance costs of $41,893 and $43,813 at June 30, 2017 and 2016, respectively.) Monthly payments are currently at $5,662 and begin to decrease during October 2023. The note includes imputed interest at 2.65 percent and is due May 2039.	697,041	742,797
12 notes payable to The Commerce Bank of Oregon, secured by specific mortgages receivable (including net unamortized debt issuance costs of $33,834 and $35,384 at June 30, 2017 and 2016, respectively.) Total monthly payments are currently at $4,707 and begin to decrease during January 2022. The notes included imputed interest at 2.65 percent and are due through November 2038.	458,947	500,208
Carried forward	1,774,533	1,926,150

8. Notes Payable - Continued

	2017	**2016**
Brought forward	1,774,533	1,926,150
Note payable to Umpqua Bank, secured by specific mortgages receivable (including net unamortized debt issuance costs of $88,779 and $91,739 at June 30, 2017 and 2016, respectively.) Monthly payments are currently at $10,316 and begin to decrease during June 2027. The note includes imputed interest at 2.75 percent and is due June 2047.	1,782,687	1,850,988
Note payable to Umpqua Bank. The note was paid in full during 2017.	-	1,487
Three notes payable (one in 2016) to Network for Oregon Affordable Housing, accrues interest at 2 percent (including net unamortized debt issuance costs of $11,962 and $7,078 at June 30, 2017 and 2016, respectively) and secured by certain home inventory. Monthly interest only payments at 1 percent are currently due. The notes and any unpaid interest are due between April 2019 and January 2020.	1,105,538	610,422
Note payable to an individual. Variable interest only payments are due monthly through April 2019 (currently 3 percent per annum). The note is secured by certain home inventory and is due April 2019.	1,240,000	-
Note payable to Umpqua Bank at 5.49 percent, secured by a vehicle. Monthly payments of $452, including principal and interest through March 2021.	18,298	22,568
Total other notes payable	5,921,056	4,411,615
Total notes payable	13,718,045	12,171,294
Less discount on notes payable	(51,820)	(50,144)
Net notes payable, end of year	$ 13,666,225	$ 12,121,150

Notes with stated interest rates materially different from prevailing rates at the time of inception have been discounted, as noted above.

8. Notes Payable - Continued

Notes payable related to NMTC financing contain provisions whereby the notes will be forgiven by the lender provided that certain conditions are met by the Organization. When a loan, or portion thereof, is forgiven by the lender, the Organization will recognize contribution revenue at that time.

Total principal payments required under note agreements for years subsequent to June 30, 2017, are as follows:

Years Ending June 30,	Amount*
2018	$ 358,631
2019	2,214,802
2020	835,521
2021	239,736
2022	213,478
Thereafter	10,249,798
	$ 14,111,966

*Amount does not include unamortized debt issuance costs or discounts.

9. Designated Net Assets

The Board of Directors chose to designate the Organization's unrestricted net assets for the following purposes at June 30:

	2017	2016
Emergency reserve	$ 398,622	$ 373,128
Operating reserve	299,965	279,999
	$ 698,587	$ 653,127

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following at June 30:

	2017	2016
Purpose restricted grants and contributions	$ 210,689	$ 377,378
Pledges receivable - time restricted	23,228	25,913
Unamortized balance of discounts granted on notes payable	51,820	50,144
	$ 285,737	$ 453,435

11. Net Assets Released from Restrictions

During the year ended June 30, 2017, net assets were released from restrictions as follows:

Satisfaction of purpose restricted grants and contributions	$ 892,202
Collection of pledges receivable	18,247
Amortization of discount on notes payable	24,965
	$ 935,414

12. Contingency

The Organization has either acquired properties directly or received funding for properties from governmental agencies. These governmental agencies have imposed a restriction that requires the properties be occupied by low-income families for periods ranging 5 to 30 years, depending on the agreement with the governmental agency. Failure to comply with this restriction during the time period specified in the agreement could require the Organization to return funding from the governmental agency. However, as of June 30, 2017, the Organization has complied with the aforementioned restriction, and has the intention and ability to continue to comply with the restriction. Accordingly, management believes risk of loss to the Organization under these agreements is remote.

13. Retirement Plan

The Organization has a 403(b) retirement plan for employees. The Organization contributes 3 percent of each eligible employee's salary provided the eligible employee contributes at least 3 percent of their salary. For the year ended June 30, 2017, the Organization's contribution toward employee retirement was $53,947.

14. Line of Credit

The Organization has a $325,000 line of credit, secured by substantially all assets, available with KeyBank. Interest on the line of credit is 2 percent over prime (6.25 percent at June 30, 2017). There were no outstanding borrowings at June 30, 2017 and 2016.

15. Commitments

The Organization leases retail and office space in Portland, Vancouver, Beaverton, and Gresham for the Resale Stores under operating lease agreements expiring through September 2031. A deferred rent obligation was recognized, which represents the difference between straight-line recognition of rent expense and actual rent payments made. Deferred rent obligation totaled $173,003 at June 30, 2017, and is included in accounts payable and accrued expenses on the accompanying consolidated statement of financial position.

The Organization subleases its space in Vancouver under an operating lease expiring May 2019. The sublessee is obligated to pay the Organization for its portion of operating expenses each month for the duration of the lease term.

Future minimum annual lease payments (receipts) under these leases at June 30, 2017, are as follows:

Years Ending June 30,	Minimum Scheduled Payments	Minimum Sublease Receipts	Net Lease Commitments
2018	$ 573,888	$ (12,600)	$ 561,288
2019	551,237	(11,550)	539,687
2020	430,196	-	430,196
2021	429,619	-	429,619
2022	247,033	-	247,033
Thereafter	1,833,182	-	1,833,182
	$ 4,065,155	$ (24,150)	$ 4,041,005

Rent expense for retail and office space and office equipment was $647,073 for the year ended June 30, 2017.

16. Subsequent Events

During July 2017, the Organization purchased property for $1,000,000 expected to be used for construction of houses to be sold to qualified families. The purchase was financed with a loan from Umpqua Bank. The loan has a principal amount of $1,000,000, bears interest at the bank's prime rate (4.25 percent), and is due August 2018. In connection with this project, the Organization received a conditional grant of $1,500,000 from the Portland Housing Bureau. The Organization intends to use the grant proceeds to service the Umpqua Bank loan and pay for additional construction costs.

During August 2017, mortgages receivable with a net carrying value of $2,544,344 were sold without recourse for $3,530,801. A gain of $986,457 is expected to be recorded from this sale transaction.