Habitat for Humanity®
Portland/Metro East

CONSOLIDATED FINANCIAL STATEMENTS

Year Ended June 30, 2016

with

Independent Auditors' Report

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Table of Contents

HOFFMAN, STEWART & SCHMIDT, P.C.
CERTIFIED PUBLIC ACCOUNTANTS
4900 Meadows Rd., Suite 200 • Lake Oswego, Oregon 97035-3295
Telephone: (503) 220-5900 • Facsimile: (503) 220-8836

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, 2016, 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 consolidated financial position of Habitat for Humanity Portland/Metro East and subsidiaries as of June 30, 2016, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity Portland/Metro East's 2015 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 10, 2015. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2015, 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
November 8, 2016

HABITAT FOR HUMANITY PORTLAND/METRO EAST

Consolidated Statement of Financial Position

June 30, 2016 *(With Comparative Amounts for 2015)*	**2016**	**2015**
ASSETS		
Cash and cash equivalents	$ 1,834,522	$ 2,364,476
Cash held for escrow and maintenance *(Note 8)*	143,238	128,470
Grants and other receivables	744,010	512,891
Mortgages receivable - net *(Notes 2 and 9)*	8,181,956	7,634,039
Inventories *(Notes 3 and 9)*	5,499,840	5,804,607
Prepaid expenses and deposits	191,160	140,791
Investment in limited partnerships *(Note 4)*	5,864,314	4,246,577
Restricted cash *(Note 4)*	231,650	163,330
Intangible assets - net *(Note 5)*	433,491	327,041
Property and equipment - net *(Notes 6 and 9)*	598,306	486,923
Total assets	**$ 23,722,487**	**$ 21,809,145**
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable and accrued expenses	$ 470,135	$ 467,631
Accrued payroll, PTO, and payroll taxes	170,601	137,515
Due to Habitat International and other affiliates *(Note 7)*	260,925	261,845
Escrow and maintenance *(Note 8)*	143,238	128,470
Notes payable *(Note 9)*	12,554,641	10,136,885
Total liabilities	**13,599,540**	**11,132,346**
Commitments and contingencies *(Notes 14, 15, 16, and 17)*		
Net assets:		
Unrestricted:		
Undesignated	8,456,043	9,021,135
Net investment in property and equipment	560,342	473,038
Designated *(Note 10)*	653,127	608,572
Total unrestricted	9,669,512	10,102,745
Temporarily restricted *(Note 11)*	453,435	574,054
Total net assets	**10,122,947**	**10,676,799**
Total liabilities and net assets	**$ 23,722,487**	**$ 21,809,145**

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, 2016 *(With Comparative Totals for 2015)*

	Unrestricted	Temporarily Restricted	Total 2016	Total 2015
Revenue, gains, and other support:				
Sales - homes	$ 4,218,053	$ -	$ 4,218,053	$ 2,077,746
Resale stores - net *(Note 12)*	1,314,203	-	1,314,203	1,113,561
Contributions and grants	1,753,896	703,971	2,457,867	2,088,564
Donated services, materials, and equipment	802,740	-	802,740	316,647
Distributions received from limited partnerships	53,761	-	53,761	42,505
Amortization of discount on mortgages receivable	771,741	-	771,741	879,270
Net gain from sale of mortgages receivable *(Note 2)*	529,845	-	529,845	844,550
Other - net	69,376	16,760	86,136	166,213
Special events:				
Gross revenue	399,185	15,747	414,932	388,935
Less direct cost of donor benefits	(132,049)	-	(132,049)	(115,132)
	267,136	15,747	282,883	273,803
Net assets released from restrictions *(Note 13)*	857,097	(857,097)	-	-
Net revenue, gains, and other support	**10,637,848**	**(120,619)**	**10,517,229**	**7,802,859**
Expenses:				
Program services	9,735,739	-	9,735,739	5,382,297
Supporting services:				
Development	750,109	-	750,109	650,905
Management and general	585,233	-	585,233	568,719
Total supporting services	1,335,342	-	1,335,342	1,219,624
Total expenses	**11,071,081**	**-**	**11,071,081**	**6,601,921**
Increase (decrease) in net assets	**(433,233)**	**(120,619)**	**(553,852)**	**1,200,938**
Net assets, beginning of year	10,102,745	574,054	10,676,799	9,475,861
Net assets, end of year	**$ 9,669,512**	**$ 453,435**	**$ 10,122,947**	**$ 10,676,799**

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, 2016 *(With Comparative Totals for 2015)*

	Program Services	Development	Management and General	Total 2016	Total 2015
Cost of homes sold	$ 4,699,829	$ -	$ -	$ 4,699,829	$ 1,724,033
Discounts granted on mortgages	2,391,797	-	-	2,391,797	1,202,190
	7,091,626	-	-	7,091,626	2,926,223
Salaries and wages	980,335	408,272	147,352	1,535,959	1,367,644
Employee benefits and payroll taxes	191,395	92,812	31,695	315,902	270,386
Fees for services	75,449	77,967	89,851	243,267	257,171
Advertising and promotion	10,658	-	31,974	42,632	38,137
Office expenses	25,938	12,440	28,467	66,845	67,152
Information technology	20,577	9,896	3,378	33,851	32,770
Occupancy	15,122	7,083	2,419	24,624	26,687
Travel	24,310	5,652	1,930	31,892	33,619
Interest expense	198,987	318	220	199,525	205,573
Allocations to affiliates *(Note 7)*	771,432	51,429	205,715	1,028,576	890,881
Depreciation and amortization	71,325	13,763	5,355	90,443	87,664
Insurance	50,323	14,541	5,315	70,179	71,102
NRI program expense	34,617	-	-	34,617	80,292
Outreach and support	50,933	33,108	2,796	86,837	68,951
Bad debt	-	-	22,400	22,400	33,746
Warranty costs	5,946	-	-	5,946	45,916
Other expenses	116,766	22,828	6,366	145,960	98,007
	$ 9,735,739	**$ 750,109**	**$ 585,233**	**$ 11,071,081**	**$ 6,601,921**

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, 2016 *(With Comparative Totals for 2015)*	**2016**	**2015**
Cash flows from operating activities:		
Cash receipts:		
Principal payments on mortgages receivable and down payments on sales of homes	$ 912,619	$ 1,158,853
Resale stores	3,587,728	2,976,860
Contributions and grants	2,050,303	2,439,770
Other	112,256	143,085
	6,662,906	6,718,568
Cash disbursements:		
Land purchases and home construction costs	2,758,823	2,860,120
Payroll and related expenses	1,818,775	1,631,077
Resale stores	2,208,354	1,841,614
Interest	164,030	156,218
Allocations to affiliates	1,029,496	887,564
Other	684,132	691,856
	8,663,610	8,068,449
Net cash used by operating activities	**(2,000,704)**	**(1,349,881)**
Cash flows from investing activities:		
Proceeds from sale of mortgages receivable	1,522,274	2,254,029
Repurchase of a mortgage receivable	(112,837)	-
Investment in limited partnership	(100,000)	-
Purchases of property and equipment	(163,515)	(14,265)
Net cash provided by investing activities	**1,145,922**	**2,239,764**
Cash flows from financing activities:		
Principal payments on capital lease obligations	(14,416)	(6,492)
Proceeds from notes payable	655,689	146,168
Principal payments on notes payable	(316,445)	(304,192)
Net cash provided (used) by financing activities	**324,828**	**(164,516)**
Net increase (decrease) in cash and cash equivalents	**(529,954)**	**725,367**
Cash and cash equivalents, beginning of year	2,364,476	1,639,109
Cash and cash equivalents, end of year	**$ 1,834,522**	**$ 2,364,476**

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, 2016 *(With Comparative Totals for 2015)*	**2016**	**2015**
Reconciliation of increase (decrease) in net assets to net cash used by operating activities:		
Increase (decrease) in net assets	$ (553,852)	$ 1,200,938
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation and amortization	157,374	154,363
Discounts granted on notes payable	(16,760)	(35,777)
Amortization of discount on notes payable	24,163	19,183
New mortgages granted	(4,218,053)	(1,922,027)
Discounts granted on mortgages receivable	2,391,797	1,202,190
Amortization of discount on mortgages receivable	(771,741)	(879,270)
Net gain from sale of mortgages receivable	(529,845)	(844,550)
Contributed equipment	-	(11,400)
Contributed land held for development	(349,000)	-
Loss recognized on disposal of equipment	451	316
Notes payable forgiven	(350,000)	(459,781)
(Increase) decrease in:		
Grants receivable and other receivables	(231,119)	387,571
Mortgages receivable	912,619	1,003,134
Inventories	1,522,058	(1,409,277)
Prepaid expenses and deposits	(50,369)	93,324
Restricted cash	50,982	35,122
Increase (decrease) in:		
Accounts payable and accrued expenses	(21,575)	105,790
Accrued payroll, PTO, and payroll taxes	33,086	6,953
Amounts due Habitat International and other affiliates	(920)	3,317
Net cash used by operating activities	**$ (2,000,704)**	**$ (1,349,881)**
Supplemental disclosures of non-cash investing and financing activities:		
Inventory acquired in exchange for outstanding mortgages receivable	$ 257,869	$ 407,398
Land held for development financed through note payable	610,422	-
Investment in limited partnership financed through note payable	1,517,737	-
Restricted cash acquired through note payable	119,302	-
Intangible assets financed through note payable	150,048	-
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, 2016 or 2015.

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. Revenue from Resale store sales 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.

1. Significant Accounting Policies - Continued

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:

	2016	2015
Construction materials and services	$ 417,188	$ 259,176
Land held for development	349,000	-
Equipment, supplies, and services	36,552	57,471
	$ 802,740	$ 316,647

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.

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 7.39 to 9 percent based on the prevailing market rates at the inception of the mortgages. The rates are provided by Habitat International 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.

1. Significant Accounting Policies - Continued

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, 2016, the allowance for uncollectible pledges receivable totaled $10,431 and the allowance for other receivables totaled $36,219.

Pledges receivable due beyond one year have been discounted using percentage rates between 3 and 7.97. Gross outstanding pledges receivable of $28,020 are expected to be collected within one year, and the remaining $9,742 is expected to be collected between one and five years. Total pledges receivable (net of discount and the allowance for uncollectible pledges) were $25,913 at June 30, 2016, 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, 2016 and 2015.

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, 2016, 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 when incurred. Warranty costs for the year ended June 30, 2016, were $5,946.

Advertising Expense - Advertising costs are charged to expense when incurred. Total advertising expense was $98,433 for the year ended June 30, 2016.

1. Significant Accounting Policies - Continued

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 November 8, 2016, the date the consolidated financial statements were available to be issued.

Reclassifications - Certain reclassifications have been made to the 2015 consolidated financial statements to conform with the 2016 presentation.

Summarized Financial Information for 2015 - 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, 2015, from which the summarized financial information was derived.

2. Mortgages Receivable - Net

	2016	2015
Mortgages receivable	16,955,835	15,825,945
Discount on mortgages receivable	(8,773,879)	(8,191,906)
Mortgages receivable - net of discount	$ 8,181,956	$ 7,634,039

During the year ended June 30, 2016, mortgages receivable with a carrying value of $956,262 (net of discounts) were sold without recourse for $1,522,274. A gain of $566,012 was recognized as a result of the sale.

During the year ended June 30, 2016, a mortgage receivable previously sold was repurchased for $112,837. A loss of $36,167 was recognized as a result of the repurchase.

Mortgage principal payments totaling $23,987 were in arrears related to mortgages receivable with an outstanding balance of $1,027,283 at June 30, 2016. A provision for impairment of loans has not been recorded since the Organization holds the trust deeds as security on the mortgages.

3. Inventories

	2016	2015
Raw materials:		
Construction	$ 61,927	$ 58,995
Resale stores	167,674	165,914
Construction in progress	2,583,156	2,901,094
Land held for development	2,006,130	2,189,260
Homes available for sale	680,953	489,344
	$ 5,499,840	$ 5,804,607

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, 2016, six 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 9)*, 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 $231,650 at June 30, 2016.

The Organization's investment in limited partnerships was $5,864,314 at June 30, 2016.

5. Intangible Assets - Net

Transaction costs associated with obtaining NMTC financing have been capitalized and are being amortized on a straight-line basis over the seven year terms of the respective NMTCs. Loan, advisor, and legal fees associated with notes payable are being amortized on a straight-line basis over the lives of the respective financing arrangements.

Total intangible costs are summarized as follows:

	2016	2015
Capitalized costs	$ 626,797	$ 476,749
Less accumulated amortizaton	(193,306)	(149,708)
	$ 433,491	$ 327,041

Future estimated amortization expense at June 30, 2016, is as follows:

Years Ending June 30,	Amount
2017	$ 46,812
2018	37,530
2019	26,559
2020	18,479
2021	17,180
Thereafter	286,931
	$ 433,491

Amortization expense on intangible assets was $43,598 for the year ended June 30, 2016.

6. Property and Equipment - Net

	2016	2015
Land	$ 80,081	$ 80,081
Building	569,784	420,824
Construction equipment	37,247	31,068
Office equipment and computer software	104,044	99,560
Leased equipment	38,495	32,438
Warehouse equipment	327,535	327,535
Vehicles	173,357	139,828
	1,330,543	1,131,334
Less accumulated depreciation and amortization	(732,237)	(644,411)
Property and equipment - net	$ 598,306	$ 486,923

At June 30, 2016, 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 $37,964 as a component of accounts payable and accrued expenses.

Depreciation and amortization expense on property and equipment (including property acquired under a capital lease) was $113,776 the year ended June 30, 2016.

7. 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, 2016:

	Habitat International	Local Affiliates	Total
Amount accrued, beginning of year	$ 63,156	$ 198,689	$ 261,845
Amount allocated during the year	257,902	770,674	1,028,576
Amount paid during the year	(262,391)	(767,105)	(1,029,496)
Amount accrued, end of year	$ 58,667	$ 202,258	$ 260,925

8. 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, 2016, was $143,238.

9. Notes Payable

	2016	2015
Notes payable issued in connection with NMTC financing:		
Note payable to HFHI-SA NMTC IV, LLC. Interest on the note is .75 percent, 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.	3,760,687	3,760,687
Note payable to CCM Community Development XXVII, LLC. Interest on the note is .76 percent, 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.	1,880,000	1,880,000
Note payable to HFHI NMTC Sub-CDE I, LLC. Interest on the note is .68 percent, 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.	2,371,552	-
Total notes payable issued in connection with NMTC financing	8,012,239	5,640,687

9. Notes Payable - Continued

	2016	2015
Other notes payable:		
Note payable to Habitat for Humanity International, Inc. at 3.8 percent interest, secured by certain mortgages on existing homes of the Organization. Quarterly payments of $21,720, including principal and interest through June 2020.	320,992	393,935
17 notes payable (14 in 2015) 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 June 2022.	358,001	370,435
Note payable to Habitat for Humanity of Oregon at zero percent interest, discounted at 7.5 percent, secured by property. Monthly payments are $417 through November 2017.	7,069	12,073
Note payable to Pacific Continental Bank, secured by specific mortgages receivable. 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.	786,610	833,041
12 notes payable to The Commerce Bank of Oregon, secured by specific mortgages receivable. 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.	535,592	577,286
Note payable to Umpqua Bank, secured by specific mortgages receivable. 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.	1,942,727	2,012,056
Carried forward	3,950,991	4,198,826

9. Notes Payable - Continued

Brought forward	$ 3,950,991	$ 4,198,826
Note payable to Umpqua Bank at 5.45 percent, secured by a vehicle. Monthly payments of $302, including principal and interest through November 2016.	1,487	4,919
Note payable to Network for Oregon Affordable Housing, accrues interest at 2 percent interest, and secured by certain home inventory. Monthly interest only payments at 1 percent are currently due. The note and any unpaid interest is due April 2019.	617,500	-
Note payable to Umpqua Bank at 5.49 percent, secured by a vehicle. Monthly payments of $452, including principal and interest through March 2021.	22,568	-
Note payable to the City of Gresham. Principal balance of $350,000 was forgiven during 2016.	-	350,000
Total other notes payable	4,592,546	4,553,745
Total notes payable	12,604,785	10,194,432
Less discount on notes payable	(50,144)	(57,547)
Net notes payable, end of year	$ 12,554,641	$ 10,136,885

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

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.

9. Notes Payable - Continued

Total principal payments required under note agreements for years subsequent to June 30, 2016, are as follows:

Years Ending June 30,	Amount*
2017	$ 344,983
2018	348,631
2019	959,829
2020	311,681
2021	207,189
Thereafter	10,432,472
	$ 12,604,785

*Amount does not include the anticipated amortization of the discount on notes payable.

10. Designated Net Assets

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

	2016	2015
Emergency reserve	$ 373,128	$ 348,573
Operating reserve	279,999	259,999
	$ 653,127	$ 608,572

11. Temporarily Restricted Net Assets

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

	2016	2015
Purpose restricted grants and contributions	$ 377,378	$ 493,240
Pledges receivable - time restricted	25,913	23,267
Unamortized balance of discounts granted on notes payable	50,144	57,547
	$ 453,435	$ 574,054

12. Resale Stores - Net

	2016	2015
Revenues from resale stores:		
Contributed inventories	$ 4,180,239	$ 2,938,744
Other income	159,408	85,749
Inventory sales	3,431,160	2,891,109
Cost of inventory sales	(4,181,319)	(2,893,728)
Gross profit	3,589,488	3,021,874
Expenses from resale stores:		
Salaries and wages	1,105,074	844,304
Employee benefits and payroll taxes	263,251	210,414
Advertising and promotion	75,537	88,927
Depreciation	66,931	66,699
Fees and other expenses	204,123	134,926
Transportation	53,295	39,523
Warehouse rent and maintenance	507,074	523,520
Total expenses	2,275,285	1,908,313
Net revenues from resale	$ 1,314,203	$ 1,113,561

13. Net Assets Released from Restrictions

During the year ended June 30, 2016, net assets were released from restrictions as follows:

Compliance with grant and contribution restrictions	$ 807,629
Receipt of pledges receivable	25,305
Amortization of discount on notes payable	24,163
	$ 857,097

14. 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, 2016, 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.

15. 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, 2016, the Organization's contribution toward employee retirement was $50,787.

16. 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 (5.5 percent at June 30, 2016). There were no outstanding borrowings at June 30, 2016 and 2015.

17. Commitments

The Organization leases retail and office space in Portland, Vancouver, and Beaverton for the Resale Stores under operating lease agreements expiring through August 2021. 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, 2016, are as follows:

Years Ending June 30,	Minimum Scheduled Payments	Minimum Sublease Receipts	Net Lease Commitments
2017	$ 353,605	$ (12,600)	$ 341,005
2018	292,507	(12,600)	279,907
2019	235,451	(11,550)	223,901
2020	106,195	-	106,195
2021	97,021	-	97,021
2022	16,249	-	16,249
	$ 1,101,028	$ (36,750)	$ 1,064,278

Rent expense for retail and office space and office equipment was $387,523 for the year ended June 30, 2016.

18. Subsequent Events

In September 2016, mortgages receivable with a net carrying value of $1,345,814 were sold without recourse for $2,082,801. A gain of $736,987 is expected to be recorded from this sale transaction.

In October 2016, the Organization signed an operating lease agreement for space for a new Resale store. The lease term begins in November 2016, and expires in September 2031. The lease does not require monthly payments until October 2017, at which time monthly payments of $13,598 are due. These monthly payments will periodically increase over the term of the lease.