



**CONSOLIDATED FINANCIAL STATEMENTS**

**Year Ended June 30, 2015**

**with**

**Independent Auditors' Report**

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# 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, 2015, 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 (GAAP); 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 and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. 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, 2015, and the changes in their consolidated net assets and their consolidated cash flows for the year then ended in accordance with GAAP.

## **Report on Summarized Comparative Information**

We have previously audited Habitat for Humanity Portland/Metro East's 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited consolidated financial statements in our report dated November 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014, is consistent, in all material respects, with the audited consolidated financial statements from which it has been derived.

## **Other Reporting Required by *Government Auditing Standards***

In accordance with *Government Auditing Standards*, we have also issued our report dated November 10, 2015, on our consideration of Habitat for Humanity Portland/Metro East and subsidiaries' internal control over financial reporting and on our tests of their compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity Portland/Metro East and subsidiaries' internal control over financial reporting and compliance.

Huffman, Stewart & Schmidt, P.C.

Lake Oswego, Oregon  
November 10, 2015

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Consolidated Statement of Financial Position

June 30, 2015 <i>(With Comparative Amounts for 2014)</i>	2015	2014
<b>ASSETS</b>		
Cash and cash equivalents	\$ 2,364,476	\$ 1,639,109
Cash held for escrow and maintenance <i>(Note 9)</i>	128,470	192,541
Grants receivable	344,121	713,052
Mortgages receivable - net <i>(Notes 2 and 11)</i>	7,634,039	8,854,943
Pledges receivable <i>(Note 3)</i>	23,267	41,907
Inventories <i>(Notes 4 and 11)</i>	5,804,607	3,987,932
Prepaid expenses, deposits, and other assets	286,294	379,618
Investment in limited partnerships <i>(Note 5)</i>	4,246,577	4,246,577
Restricted cash <i>(Note 5)</i>	163,330	198,452
Intangible assets - net <i>(Note 6)</i>	327,041	366,729
Property and equipment - net <i>(Notes 7 and 10)</i>	486,923	576,249
<b>Total assets</b>	<b><u>\$ 21,809,145</u></b>	<b><u>\$ 21,197,109</u></b>
<b>LIABILITIES AND NET ASSETS</b>		
<b>Liabilities:</b>		
Accounts payable and accrued expenses	\$ 453,746	\$ 347,956
Accrued payroll, PTO, and payroll taxes	137,515	130,562
Due to Habitat International and other affiliates <i>(Note 8)</i>	261,845	258,528
Escrow and maintenance <i>(Note 9)</i>	128,470	192,541
Capital lease obligation <i>(Note 10)</i>	13,885	20,377
Notes payable <i>(Note 11)</i>	10,136,885	10,771,284
<b>Total liabilities</b>	<b>11,132,346</b>	<b>11,721,248</b>
Commitments and contingencies <i>(Notes 16, 17, 19, 20 and 21)</i>		
<b>Net assets:</b>		
Unrestricted:		
Undesignated	9,021,135	7,791,467
Net investment in property and equipment	473,038	555,872
Designated <i>(Note 12)</i>	608,572	518,844
Total unrestricted	10,102,745	8,866,183
Temporarily restricted <i>(Note 13)</i>	574,054	609,678
<b>Total net assets</b>	<b><u>10,676,799</u></b>	<b><u>9,475,861</u></b>
<b>Total liabilities and net assets</b>	<b><u>\$ 21,809,145</u></b>	<b><u>\$ 21,197,109</u></b>

*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, 2015** (With Comparative Totals for 2014)

	Unrestricted	Temporarily Restricted	Total	
			2015	2014
<b>Revenue, gains, and other support:</b>				
Sales - homes	\$ 2,077,746	\$ -	\$ 2,077,746	\$ 5,336,097
Resale stores - net (Note 14)	1,113,561	-	1,113,561	706,461
Contributions and grants	1,644,083	444,481	2,088,564	3,268,051
Donated services, materials, and equipment	280,647	36,000	316,647	501,949
Distributions received from limited partnerships	42,505	-	42,505	42,454
Amortization of discount on mortgages receivable	879,270	-	879,270	813,057
Gain from sale of mortgages receivable (Note 2)	844,550	-	844,550	255,250
Interest subsidies received (Note 11)	30,172	35,777	65,949	100,498
Other - net	100,264	-	100,264	71,970
Special events:				
Gross revenue	376,620	12,315	388,935	348,292
Less direct cost of donor benefits	(115,132)	-	(115,132)	(114,608)
	261,488	12,315	273,803	233,684
Net assets released from restrictions (Note 15)	564,197	(564,197)	-	-
<b>Net revenue, gains, and other support</b>	<b>7,838,483</b>	<b>(35,624)</b>	<b>7,802,859</b>	<b>11,329,471</b>
<b>Expenses:</b>				
Program services	5,382,297	-	5,382,297	10,815,953
Supporting services:				
Development	650,905	-	650,905	568,875
Management and general	568,719	-	568,719	409,562
Total supporting services	1,219,624	-	1,219,624	978,437
<b>Total expenses</b>	<b>6,601,921</b>	<b>-</b>	<b>6,601,921</b>	<b>11,794,390</b>
<b>Increase (decrease) in net assets</b>	<b>1,236,562</b>	<b>(35,624)</b>	<b>1,200,938</b>	<b>(464,919)</b>
Net assets, beginning of year	8,866,183	609,678	9,475,861	9,940,780
<b>Net assets, end of year</b>	<b>\$ 10,102,745</b>	<b>\$ 574,054</b>	<b>\$ 10,676,799</b>	<b>\$ 9,475,861</b>

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, 2015** (With Comparative Totals for 2014)

	Program			Total	
	Services	Development	Management and General	2015	2014
Salaries and wages	\$ 888,423	\$ 337,452	\$ 141,769	\$ 1,367,644	\$ 1,292,573
Employee benefits and payroll taxes	168,042	74,396	27,948	270,386	273,753
Fees for services	60,353	101,117	95,701	257,171	214,725
Advertising and promotion	9,534	-	28,603	38,137	33,360
Office expenses	19,539	8,611	39,002	67,152	59,450
Information technology	21,265	8,363	3,142	32,770	24,273
Occupancy	18,332	6,073	2,282	26,687	27,891
Travel	25,860	5,640	2,119	33,619	29,702
Interest expense	204,548	362	663	205,573	262,101
Allocations to affiliates (Note 8)	668,161	44,544	178,176	890,881	575,719
Depreciation and amortization	68,790	13,201	5,673	87,664	85,789
Insurance	54,629	11,777	4,696	71,102	78,417
Cost of homes sold	1,724,033	-	-	1,724,033	5,323,343
Discounts granted on mortgages receivable	1,202,190	-	-	1,202,190	3,193,722
NRI program expense	80,292	-	-	80,292	121,247
Outreach and support	38,440	26,825	3,686	68,951	69,559
Bad debt	-	-	33,746	33,746	-
Warranty costs (Note 21)	45,916	-	-	45,916	53,901
Other expenses	83,950	12,544	1,513	98,007	74,865
	<b>\$ 5,382,297</b>	<b>\$ 650,905</b>	<b>\$ 568,719</b>	<b>\$ 6,601,921</b>	<b>\$ 11,794,390</b>

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

**HABITAT FOR HUMANITY PORTLAND/METRO EAST**

**Consolidated Statement of Cash Flows**

<b>Year Ended June 30, 2015 (With Comparative Totals for 2014)</b>	<b>2015</b>	<b>2014</b>
<b>Cash flows from operating activities:</b>		
Cash receipts:		
Principal payments on mortgages receivable and down payments on sales of homes	\$ 1,158,853	\$ 960,398
Resale stores	2,976,860	2,466,012
Contributions and grants	2,439,770	2,266,233
Other	143,085	114,424
	<u>6,718,568</u>	<u>5,807,067</u>
Cash disbursements:		
Land purchases and home construction costs	2,860,120	2,730,148
Payroll and related expenses	1,631,077	1,546,614
Resale stores	1,841,614	1,649,927
Interest	156,218	139,829
Allocations to affiliates	887,564	545,679
Other	691,856	643,594
	<u>8,068,449</u>	<u>7,255,791</u>
<b>Net cash used by operating activities</b>	<b>(1,349,881)</b>	<b>(1,448,724)</b>
<b>Cash flows from investing activities:</b>		
Proceeds from sale of mortgages receivable	2,254,029	730,373
Purchases of property and equipment	(14,265)	(82,947)
<b>Net cash provided by investing activities</b>	<b>2,239,764</b>	<b>647,426</b>
<b>Cash flows from financing activities:</b>		
Principal payments on capital lease obligation	(6,492)	(6,024)
Proceeds from notes payable	146,168	2,198,285
Principal payments on notes payable	(304,192)	(532,617)
Borrowings (repayments) on lines of credit - net	-	(225,000)
<b>Net cash provided (used) by financing activities</b>	<b>(164,516)</b>	<b>1,434,644</b>
<b>Net increase in cash and cash equivalents</b>	<b>725,367</b>	<b>633,346</b>
Cash and cash equivalents, beginning of year	1,639,109	1,005,763
<b>Cash and cash equivalents, end of year</b>	<b><u>\$ 2,364,476</u></b>	<b><u>\$ 1,639,109</u></b>

*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, 2015 (With Comparative Totals for 2014)	2015	2014
Reconciliation of increase (decrease) in net assets to net cash used by operating activities:		
Increase (decrease) in net assets	\$ 1,200,938	\$ (464,919)
Adjustments to reconcile increase (decrease) in net assets to net cash used by operating activities:		
Depreciation and amortization	154,363	141,315
Discounts granted on notes payable	(35,777)	(15,853)
Amortization of discount on notes payable	19,183	21,774
New mortgages granted	(1,922,027)	(5,293,346)
Discounts granted on mortgages receivable	1,202,190	3,193,722
Amortization of discount on mortgages receivable	(879,270)	(813,057)
Gain from sale of mortgages receivable	(844,550)	(255,250)
Credit used for home construction costs	-	90,000
Contributed property and equipment	(11,400)	-
Loss recognized on disposal of equipment	316	-
Notes payable forgiven	(459,781)	(796,000)
(Increase) decrease in:		
Grants receivable	368,931	(451,098)
Mortgages receivable	1,003,134	917,647
Pledges receivable - net	18,640	10,781
Inventories	(1,409,277)	2,256,397
Prepaid expenses, deposits, and other assets	93,324	(104,724)
Restricted cash	35,122	34,269
Increase in:		
Accounts payable and accrued expenses	105,790	29,866
Accrued payroll, PTO, and payroll taxes	6,953	19,712
Amounts due Habitat International and other affiliates	3,317	30,040
<b>Net cash used by operating activities</b>	<b>\$ (1,349,881)</b>	<b>\$ (1,448,724)</b>
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Inventory acquired in exchange for outstanding mortgages receivable	\$ 407,398	\$ 328,027
Intangible assets financed through note payable	-	110,124
Equipment financed through note payable	-	10,000

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

# HABITAT FOR HUMANITY PORTLAND/METRO EAST

## Notes to Consolidated Financial Statements

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### 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, 2015 or 2014.

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.

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

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#### 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, pledges 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 market value at the date of donation, determined by the FIFO method. Donated used building materials and supplies (contributed inventory) of \$ 2,938,744 were received during the year ended June 30, 2015 (*Note 14*). 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 three to seven 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.

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

#### 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, 2015 and 2014, were as follows:

	2015	2014
Construction materials and services	\$ 259,176	\$ 444,799
Equipment, supplies, and services	57,471	57,150
	<u>\$ 316,647</u>	<u>\$ 501,949</u>

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.

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

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#### 1. Significant Accounting Policies - Continued

**Receivables** - The Organization's receivables consist of pledges, grants, and mortgages. The Organization has determined that an allowance for uncollectible accounts is only needed for pledges receivable. An allowance for uncollectible pledges receivable is provided based on management's judgment of potential defaults. The Organization will write-off any balance that remains after it has exhausted all reasonable collection efforts. See *Note 3* for the allowance for uncollectible pledges at June 30, 2015 and 2014.

Mortgages receivable represent the amount charged to homeowners for homes built by the Organization and are secured by the underlying property. These mortgages receivable are typically paid back on a monthly basis over a mutually agreed-upon period of time.

**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.

**Reclassifications** - Certain reclassifications have been made to the 2014 consolidated financial statements to conform with the 2015 presentation.

**Summarized Financial Information for 2014** - 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, 2014, from which the summarized financial information was derived.

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

#### 2. Mortgages Receivable

	2015	2014
Mortgages receivable	15,825,945	18,358,058
Discount on mortgages receivable	<u>(8,191,906)</u>	<u>(9,503,115)</u>
Mortgages receivable - net of discount	<u>\$ 7,634,039</u>	<u>\$ 8,854,943</u>

During the year ended June 30, 2015, mortgages receivable with a carrying value of \$1,409,479 (net of discounts) were sold without recourse for \$2,254,029. A gain of \$844,550 was recognized as a result of the sale.

Mortgage principal payments totaling \$47,411 were in arrears related to mortgages receivable with an outstanding balance of \$1,162,408 at June 30, 2015. A provision for impairment of loans has not been recorded since the Organization holds the trust deeds as security on the mortgages.

#### 3. Pledges Receivable

The Organization had unconditional promises to give, expected to be collected, as follows at June 30:

	2015	2014
Less than one year	\$ 34,800	\$ 34,672
One to five years	<u>11,992</u>	<u>21,142</u>
	46,792	55,814
Less discount to present value	<u>(2,345)</u>	<u>(4,291)</u>
	44,447	51,523
Less allowance for uncollectible pledges receivable	<u>(21,180)</u>	<u>(9,616)</u>
	<u>\$ 23,267</u>	<u>\$ 41,907</u>

Pledges receivable expected to be collected within one to five years have been discounted using percentage rates between 3 and 7.97.

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

#### 4. Inventories

	2015	2014
Raw materials:		
Construction	\$ 58,995	\$ 30,414
Resale stores	165,914	120,900
Construction in progress	2,901,094	1,228,124
Land held for development	2,189,260	2,388,886
Homes available for sale	489,344	219,608
	<u>\$ 5,804,607</u>	<u>\$ 3,987,932</u>

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, 2015, five homes were available for sale.

#### 5. Investment in Limited Partnerships and Restricted Cash

The Organization has invested in two limited partnerships (HFHI-SA Leverage VII, LLC and CCML Leverage II, 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.

NMTC financing allowed the Organization to receive loans from HFHI-SA IV, LLC and CCM Community Development XXVII, LLC (the lenders) (*Note 11*), 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 \$163,330 at June 30, 2015.

The Organization's investment in limited partnerships was \$4,246,577 at June 30, 2015.

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

#### 6. 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:

	<b>2015</b>	<b>2014</b>
Capitalized costs	\$ 476,749	\$ 476,749
Less accumulated amortization	<u>(149,708)</u>	<u>(110,020)</u>
	<u><u>\$ 327,041</u></u>	<u><u>\$ 366,729</u></u>

Future estimated amortization expense at June 30, 2015, is as follows:

<b>Years Ending June 30,</b>	<b>Amount</b>
2016	\$ 39,698
2017	39,698
2018	30,415
2019	19,444
2020	13,665
Thereafter	<u>184,121</u>
	<u><u>\$ 327,041</u></u>

Amortization expense on intangible assets was \$39,688 for the year ended June 30, 2015.



**HABITAT FOR HUMANITY PORTLAND/METRO EAST**

**Notes to Consolidated Financial Statements - Continued**

**7. Property and Equipment - Net**

	<b>2015</b>	<b>2014</b>
Land	\$ 80,081	\$ 80,081
Building	420,824	420,824
Construction equipment	31,068	31,068
Office equipment and computer software	99,560	94,271
Leased equipment	32,438	32,438
Warehouse equipment	327,535	355,379
Vehicles	139,828	141,509
	<u>1,131,334</u>	<u>1,155,570</u>
Less accumulated depreciation and amortization	<u>(644,411)</u>	<u>(579,321)</u>
Property and equipment - net	<u><u>\$ 486,923</u></u>	<u><u>\$ 576,249</u></u>

Depreciation and amortization expense on property and equipment was \$114,675 the year ended June 30, 2015.

**8. 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, 2015:

	<b>Habitat International</b>	<b>Local Affiliates</b>	<b>Total</b>
Amount accrued, beginning of year	\$ 129,667	\$ 128,861	\$ 258,528
Amount allocated during the year	211,626	679,255	890,881
Amount paid during the year	<u>(278,137)</u>	<u>(609,427)</u>	<u>(887,564)</u>
Amount accrued, end of year	<u><u>\$ 63,156</u></u>	<u><u>\$ 198,689</u></u>	<u><u>\$ 261,845</u></u>

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

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#### 9. 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, 2015, was \$128,470.

#### 10. Capital Lease Obligation

The Organization is the lessee of a copier under a capital lease expiring in May 2017. The copier was capitalized at \$32,438, which represents the present value of the minimum lease payments when the lease originated. Accumulated amortization of the asset under the capital lease was \$20,004 at June 30, 2015. Amortization of assets acquired under capital leases is included in depreciation and amortization expense. The interest rate on the capitalized lease is 7.50 percent and is imputed based on the lessor's implicit rate of return.

Minimum future lease payments under the capital lease as of June 30, 2015, are as follows:

<b>Years Ending June 30,</b>	<b>Amount</b>
2016	\$ 7,800
2017	7,150
	<hr/>
	14,950
Less amount representing interest	<hr/>
	(1,065)
Present value of net minimum payments	<hr/> <hr/>
	\$ 13,885

**HABITAT FOR HUMANITY PORTLAND/METRO EAST**

**Notes to Consolidated Financial Statements - Continued**

**11. Notes Payable**

	<b>2015</b>	<b>2014</b>
Note payable to the Portland Housing Bureau. Principal balance of \$459,781 was forgiven during 2015.	\$ -	\$ 459,781
Note payable to the City of Gresham. Interest on the note is zero percent, and the note is secured by housing units. The note can be forgiven, on a prorated basis per housing unit, provided each house is completed prior to maturity, which is December 2015, and the housing units are sold to eligible home buyers. Otherwise, the City may declare the entire loan immediately due and payable.	350,000	350,000
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.	<u>1,880,000</u>	<u>1,880,000</u>
Carried forward	5,990,687	6,450,468

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

#### 11. Notes Payable - Continued

	2015	2014
Brought forward	\$ 5,990,687	\$ 6,450,468
Note payable to Habitat for Humanity International, Inc. Repaid in 2015.	-	21,959
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.	393,935	464,171
14 notes payable (12 in 2014) 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 December 2020.	370,435	266,280
Note payable to Habitat for Humanity of Oregon. Repaid in 2015.	-	3,316
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.	12,073	17,077
Note payable to Wells Fargo Equipment Finance, Inc. Repaid in 2015.	-	5,142
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.	833,041	878,259
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.	<u>577,286</u>	<u>617,890</u>
Carried forward	8,177,457	8,724,562

**HABITAT FOR HUMANITY PORTLAND/METRO EAST**

**Notes to Consolidated Financial Statements - Continued**

**11. Notes Payable - Continued**

	<b>2015</b>	<b>2014</b>
Brought forward	\$ 8,177,457	\$ 8,724,562
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.	2,012,056	2,079,507
Note payable to Umpqua Bank at 5.45 percent, secured by a vehicle. Monthly payments of \$302, including principal and interest through November 2016.	4,919	8,168
	<b>\$ 10,194,432</b>	<b>\$ 10,812,237</b>

Notes with stated interest rates materially different from prevailing rates at the time of inception have been discounted, as noted above. Discount information is as follows at June 30:

	<b>2015</b>	<b>2014</b>
Discount on notes payable, beginning of year	\$ 40,953	\$ 46,874
Discounts granted	35,777	15,853
Amortization of discount	(19,183)	(21,774)
Discount on notes payable, end of year	\$ 57,547	\$ 40,953
Total notes payable	\$ 10,194,432	\$ 10,812,237
Less discount on notes payable, end of year	(57,547)	(40,953)
Net notes payable, end of year	<b>\$ 10,136,885</b>	<b>\$ 10,771,284</b>

**HABITAT FOR HUMANITY PORTLAND/METRO EAST**

**Notes to Consolidated Financial Statements - Continued**

**11. Notes Payable - Continued**

Total principal payments required under note agreements for years subsequent to June 30, 2015, are as follows:

<b>Years Ending June 30,</b>	<b>Amount*</b>
2016	\$ 664,639
2017	338,838
2018	335,764
2019	323,656
2020	289,826
Thereafter	<u>8,241,709</u>
	<u><u>\$ 10,194,432</u></u>

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

Certain notes payable described above contain provisions whereby the notes will be forgiven by the lender provided that certain conditions are met by the Organization. A summary of the outstanding balances of the notes with such provisions is as follows at June 30, 2015:

Notes providing for forgiveness on a prorated basis or upon expiration of time	\$ 350,000
Note payable related to new markets tax credit financing	<u>5,640,687</u>
	<u><u>\$ 5,990,687</u></u>

When a loan, or portion thereof, is forgiven by the lender, the Organization will recognize contribution revenue at that time.

**HABITAT FOR HUMANITY PORTLAND/METRO EAST**

**Notes to Consolidated Financial Statements - Continued**

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**12. Designated Net Assets**

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

	<b>2015</b>	<b>2014</b>
Emergency reserve	\$ 348,573	\$ 323,845
Operating reserve	259,999	194,999
	<u>\$ 608,572</u>	<u>\$ 518,844</u>

**13. Temporarily Restricted Net Assets**

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

	<b>2015</b>	<b>2014</b>
Purpose restricted grants and contributions	\$ 493,240	\$ 526,818
Pledges receivable - time restricted	23,267	41,907
Unamortized balance of discounts granted on notes payable	57,547	40,953
	<u>\$ 574,054</u>	<u>\$ 609,678</u>

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

#### 14. Resale Stores - Net

	2015	2014
Revenues from resale stores:		
Contributed inventories	\$ 2,938,744	\$ 2,304,905
Sub-lease rental income*	7,160	19,338
Other income	169,098	139,643
Inventory sales	2,800,600	2,342,007
Cost of inventory sales	(2,803,219)	(2,376,981)
Inventory written off	(90,509)	(17,000)
	<u>3,021,874</u>	<u>2,411,912</u>
Gross profit	3,021,874	2,411,912
Expenses from resale stores:		
Salaries and wages	844,304	719,719
Employee benefits and payroll taxes	210,414	184,239
Advertising and promotion	88,927	93,509
Depreciation	66,699	55,524
Fees and other expenses	134,926	87,252
Transportation	39,523	44,881
Warehouse rent and maintenance	523,520	520,327
	<u>1,908,313</u>	<u>1,705,451</u>
Total expenses	1,908,313	1,705,451
Net revenues from resale	<u>\$ 1,113,561</u>	<u>\$ 706,461</u>

\*The Clark County Restore has a sub-lease agreement, which is described in *Note 20*.

#### 15. Net Assets Released from Restrictions

During the year ended June 30, 2015, net assets were released from restrictions as follows:

Receipt of pledges receivable and related write-offs	\$ 13,760
Compliance with grant and contribution restrictions	443,471
Construction of homes for program families	87,783
Amortization of discount on notes payable	19,183
	<u>\$ 564,197</u>



## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

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#### **16. Contingency**

The Organization has either acquired properties directly or received funding for properties from governmental agencies. These governmental agencies have imposed a restriction that require the properties be occupied by low-income families for periods ranging five 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, 2015, 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.

#### **17. 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, 2015, the Organization's contribution toward employee retirement was \$45,082.

#### **18. Advertising and Rent Expense**

Advertising costs are charged to operations when incurred. Total advertising expense was \$122,779 for the year ended June 30, 2015.

Total rent expense for facilities and construction and warehouse equipment was \$384,653 for the year ended June 30, 2015.

#### **19. 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 (5.25 percent at June 30, 2015). There were no outstanding borrowings at June 30, 2015 and 2014.

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

#### 20. Commitments

The Organization leases retail space in Portland, Vancouver, and Beaverton for the Resale Stores (*Note 14*) under operating lease agreements expiring through July 2019. 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, 2015, are as follows:

Years Ending June 30,	Minimum Scheduled Payments	Minimum Sublease Receipts	Net Lease Commitments
2016	\$ 350,394	\$ (12,600)	\$ 337,794
2017	281,419	(12,600)	268,819
2018	203,719	(12,600)	191,119
2019	144,000	(11,550)	132,450
2020	12,000	-	12,000
	<u>\$ 991,532</u>	<u>\$ (49,350)</u>	<u>\$ 942,182</u>

#### 21. 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, 2015, were \$45,916.

## HABITAT FOR HUMANITY PORTLAND/METRO EAST

### Notes to Consolidated Financial Statements - Continued

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#### 22. Subsequent Events

Management has evaluated subsequent events through November 10, 2015, the date the consolidated financial statements were available to be issued.

During September 2015, the Organization obtained additional NMTC financing through a new investment in a limited partnership. The Organization made an initial investment of \$1,617,737 in exchange for a 24 percent ownership interest in the limited partnership. The investment was partially financed through the proceeds of a note payable of \$2,371,552, resulting from the transaction.

During September 2015, the Organization received a donation of real property with an estimated fair value of \$349,000. The property will be used to build homes for program families.