

LUBBOCK HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2016 and 2015

LUBBOCK HABITAT FOR HUMANITY, INC.

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JUNE 30, 2016 and 2015**

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LEWIS, KAUFMAN, REID, STUKEY, GATTIS & CO., P.C.
CERTIFIED PUBLIC ACCOUNTANTS

Board of Directors
Lubbock Habitat for Humanity, Inc.
2910 Avenue N
Lubbock, Texas 79411

INDEPENDENT AUDITORS' REPORT

We have audited the accompanying financial statements of Lubbock Habitat for Humanity, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Lubbock Habitat for Humanity, Inc. as of June 30, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Lewis, Kaufman, Reid, Stucky, Gattis & Co., P.C.
Lewis, Kaufman, Reid, Stucky, Gattis & Co., P.C.
Plainview, Texas
October 28, 2016



LUBBOCK HABITAT FOR HUMANITY, INC.**STATEMENTS OF FINANCIAL POSITION
June 30, 2016 and 2015**

	<u>2016</u>	<u>2015</u>
<u>ASSETS</u>		
Cash	\$ 517,483	334,066
Restricted Cash	376,189	600,465
Accounts Receivable	27,421	-
Investments	2,518	2,103
Mortgage Loans, Net	1,339,093	1,351,311
Prepaid Expenses	14,502	-
Inventory	<u>415,971</u>	<u>300,057</u>
	2,693,177	2,588,002
<u>PROPERTY AND EQUIPMENT, NET</u>	<u>110,461</u>	<u>104,845</u>
TOTAL ASSETS	\$ <u>2,803,638</u>	<u>2,692,847</u>
<u>LIABILITIES</u>		
Accounts Payable	\$ 3,132	9,795
Accrued Expenses	15,748	4,185
Homeowners' Escrow	<u>129,480</u>	<u>135,734</u>
	<u>148,360</u>	<u>149,714</u>
<u>NET ASSETS</u>		
Unrestricted	2,381,149	2,078,402
Temporarily Restricted	<u>274,129</u>	<u>464,731</u>
	<u>2,655,278</u>	<u>2,543,133</u>
TOTAL LIABILITIES AND NET ASSETS	\$ <u>2,803,638</u>	<u>2,692,847</u>

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

LUBBOCK HABITAT FOR HUMANITY, INC.**STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015**

	<u>2016</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue and Other Support:</u>			
Grants and Contributions	\$ 164,398	294,185	458,583
In-Kind Contributions	-	28,048	28,048
Sale of Merchandise	73,602	-	73,602
Net Sales of Homes	114,718	-	114,718
Cost of Homes Sold	(293,810)	-	(293,810)
Amortization of Mortgage Discounts	108,705	-	108,705
Late Fees, Rent and Other	11,577	-	11,577
Unrealized Investment Gains	416	-	416
Net Assets Released from Restrictions	<u>512,835</u>	<u>(512,835)</u>	<u>-</u>
Total	<u>692,441</u>	<u>(190,602)</u>	<u>501,839</u>
<u>Expenses:</u>			
Program Services	285,208	-	285,208
General and Administrative	53,635	-	53,635
Fundraising	<u>50,851</u>	<u>-</u>	<u>50,851</u>
Total	<u>389,694</u>	<u>-</u>	<u>389,694</u>
Changes in Net Assets	302,747	(190,602)	112,145
Net Assets, June 30, 2015	<u>2,078,402</u>	<u>464,731</u>	<u>2,543,133</u>
Net Assets, June 30, 2016	<u>\$2,381,149</u>	<u>274,129</u>	<u>2,655,278</u>

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

LUBBOCK HABITAT FOR HUMANITY, INC.**STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2016 and 2015**

	<u>2015</u>		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
<u>Revenue and Other Support:</u>			
Grants and Contributions	\$ 72,253	85,669	157,922
In-Kind Contributions	-	43,007	43,007
Sale of Merchandise	127,110	-	127,110
Net Sales of Homes	24,101	-	24,101
Cost of Homes Sold	(41,557)	-	(41,557)
Amortization of Mortgage Discounts	114,754	-	114,754
Late Fees, Rent and Other	13,853	-	13,853
Net Assets Released from Restrictions	<u>139,010</u>	<u>(139,010)</u>	<u>-</u>
Total	<u>449,524</u>	<u>(10,334)</u>	<u>439,190</u>
<u>Expenses:</u>			
Program Services	312,934	-	312,934
General and Administrative	54,650	-	54,650
Fundraising	<u>62,573</u>	<u>-</u>	<u>62,573</u>
Total	<u>430,157</u>	<u>-</u>	<u>430,157</u>
Changes in Net Assets	19,367	(10,334)	9,033
Net Assets, June 30, 2014	<u>2,059,035</u>	<u>475,065</u>	<u>2,534,100</u>
Net Assets, June 30, 2015	<u>\$2,078,402</u>	<u>464,731</u>	<u>2,543,133</u>

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

LUBBOCK HABITAT FOR HUMANITY, INC.**STATEMENTS OF CASH FLOWS**
For the Years Ended June 30, 2016 and 2015

	<u>2016</u>	<u>2015</u>
<u>CASH FLOWS FROM OPERATING ACTIVITIES:</u>		
Change in net assets	\$ 112,145	9,033
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	14,387	10,676
In-Kind Contributions	(28,048)	(43,007)
Issuance of Mortgages	(242,222)	(55,004)
Cost of Homes Sold	293,810	41,557
Discounts on Mortgages Issued	143,028	30,903
Amortization of Mortgage Discounts	(108,705)	(114,754)
Unrealized Investment Gains	(416)	-
Changes in Assets and Liabilities:		
Accounts Receivable	(27,421)	-
Prepaid Expenses	(14,502)	-
Accounts Payable	(6,663)	10
Accrued Expenses	11,563	(954)
Homeowners' Escrow	<u>(6,254)</u>	<u>(13,369)</u>
Net Cash Provided (Used) by Operating Activities:	<u>140,702</u>	<u>(134,909)</u>
<u>CASH FLOWS FROM INVESTING ACTIVITIES:</u>		
(Increase) Decrease in Restricted Cash	224,276	131,413
Purchase of Property and Equipment	(21,212)	(2,548)
Refund of Prior Equipment Deposit	-	6,557
Payments for Lot Development Costs	(223,833)	(3,780)
Purchase of Construction Materials and Supplies	(156,632)	(27,530)
Mortgage Payments Received	<u>220,116</u>	<u>192,029</u>
Net Cash Provided (Used) by Investing Activities	<u>42,715</u>	<u>296,141</u>
Net Increase in Cash	183,417	161,232
Cash, Beginning of Year	<u>334,066</u>	<u>172,834</u>
Cash, End of Year	\$ <u>517,483</u>	<u>334,066</u>
Supplemental Disclosures for Cash Flow Information		
Cash paid for interest	\$ <u>-</u>	<u>-</u>

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

LUBBOCK HABITAT FOR HUMANITY, INC.NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**NOTE 1: NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES*****Nature of Organization:***

Lubbock Habitat for Humanity, Inc. (LHFH) is a nonprofit corporation founded in 1987, incorporated and chartered under the laws of the State of Texas. The purpose of LHFH is to construct decent, affordable housing for low to moderate income families, and to show the love of Jesus Christ through action. LHFH is an affiliate of Habitat for Humanity International, Inc. (HFHI) which is a non-denominational Christian nonprofit organization headquartered in Americus, Georgia. LHFH receives assistance from the international office including information resources, training, publications, prayer support and other ways, but LHFH is directly responsible for its own operations in the Lubbock, Texas area.

Basis of Accounting:

The financial statements have been prepared utilizing the accrual basis of accounting, in which revenues are recognized when earned and expenses when payable.

Financial Statement Presentation:

Financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 958, "Not-for-Profit Entities." Under ASC No. 958, LHFH is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. LHFH had no net assets or activities required to be reported under the permanently restricted class for the year ended June 30, 2016 and 2015.

Revenue Recognition:

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

Restricted Cash:

Restricted cash includes escrow amounts received from homeowners for insurance and taxes on their homes as well as a construction savings account, and a savings account for future development costs of a new subdivision.

LUBBOCK HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015
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**NOTE 1: NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)*****Program Services:***

Program services include home construction, family support and the ReStore retail store. The cost of homes built are capitalized as construction in progress until the home is completed, at which time the cost is transferred to inventory of unsold homes. When the home is sold, the cost is transferred to Cost of Homes Sold.

Accounts Receivable:

Accounts receivable at June 30, 2016 consisted of: \$23,421 from the City of Lubbock for the balance of a \$157,500 net community housing grant received to help with development costs of a new subdivision; \$4,000 from the Federal Home Loan Funds for assistance to a homeowner that purchased their home in June, 2016.

Inventory:

Inventory is generally stated at cost on the specific identification basis and consists of inventory of unsold homes, construction in progress and land for development. Cost includes the original cost of materials and additional costs incurred to ready them to sell to homeowners.

Investments:

LHFH accounts for its investments based on the guidance of ASC No. 958. Investments in marketable securities with readily determinable fair values are recorded at their fair values on the Statement of Financial Position. Net investment return is included in the change in net assets on the accompanying Statement of Activities.

The following methods and assumptions were followed as of June 30, 2016 and 2015:

- Fair value is based on quoted market prices as of the valuation date.
- LHFH did not hold investments in any of the following:
 - Items required to be reported at amortized cost.
 - Items required to be reported at other than fair value.
- The gain or loss resulting from valuation changes is reported as Net Unrealized Investment Gains or Losses on the accompanying Statements of Activities.

Fair Value Measurement:

ASC No. 820 defines fair value, establishes a framework for using fair value to measure assets and liabilities, and expands disclosures about fair value measurements. The guidance in this statement establishes a fair value hierarchy for

LUBBOCK HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
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**NOTE 1: NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)*****Fair Value Measurement (Continued):***

valuation inputs that gives the highest priority to quoted prices in active markets for identical assets or liabilities and lowest priority to unobservable inputs. The fair value hierarchy is as follows:

Level 1 Inputs: Unadjusted quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date.

Level 2 Inputs: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly or indirectly. These include quoted prices for similar assets or liabilities in active markets, or quoted prices in markets that are not active, inputs other than quoted prices that are observable for the asset or liability or inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3 Inputs: Significant unobservable inputs that reflect the Organization's own assumptions that market participants would use in pricing the assets or liabilities.

At June 30, 2016 and 2015, LHFH's investments consisted of a small amount of publicly traded stock valued using Level 1 inputs and mortgage loans valued using Level 3 inputs. See Footnote 2.

Contributed Services:

In-Kind Contributions reflected in the financial statements includes the estimated value of donated materials and services that meet the requirement for recognition under ASC No. 958. This amount consists primarily of volunteer labor used in housing construction. In addition to the amounts recognized, a number of other volunteers have donated significant amounts of their time to LHFH programs.

Property and Equipment:

Property and equipment are stated at cost for purchased assets and at the current fair market value for donated assets. Expenses which improve the value or extend the useful life of assets are capitalized and added to historical cost, whereas maintenance and repairs are expensed as incurred. A capitalization threshold of \$500 is applied. Depreciation is computed on the straight line basis over estimated useful lives as described in Note 4.

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**NOTE 1: NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)*****Donations of Long-lived Assets – Implying Time Restrictions:***

Donations of property and equipment received without donor-imposed stipulations about how long the property must be used may be recorded as restricted contributions or unrestricted contributions, depending on the accounting policy of LHFH. LHFH has adopted a policy of not implying time restrictions. Accordingly, LHFH records such assets as increases in unrestricted net assets.

Accrued Vacation:

LHFH's vacation policy allows five days of vacation time to carry over to the following calendar year. However, there is no accrual for vacation expense on the Statements of Financial Position because management has determined that amount to be immaterial to the financial statements taken as a whole.

Income Taxes:

LHFH is exempt from income taxes under Internal Revenue Code Section 501(c)(3) under a group exemption letter granted to HFHI. Therefore, no provision for income taxes has been made on the financial statements. There are also no uncertain tax positions that must be disclosed in accordance with ASC No. 740. With few exceptions, LHFH is no longer subject to U.S. federal income tax examinations for years prior to 2012.

Cash Flow Information:

LHFH considers cash equivalents to be cash and cash items that mature in 90 days or less.

Use of Estimates:

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

NOTE 2: NON-INTEREST BEARING MORTGAGE LOANS

Sales to homeowners are recorded at the appraised fair market value of the house. Homeowners are expected to make a cash deposit for escrow purposes and donate time back to LHFH, including hours of "sweat equity" working on their house in the construction phase. The balance of the sales price is received in the form of two mortgages, a Primary Mortgage and a Contingent Mortgage.

LUBBOCK HABITAT FOR HUMANITY, INC.

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FOR THE YEARS ENDED JUNE 30, 2016 and 2015
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NOTE 2: NON-INTEREST BEARING MORTGAGE LOANS (Continued)

The Primary Mortgage reflects the gross amount of payments to be received over the lives of the mortgages, and represents the cost of the house to the homeowner. These are non-interest bearing, and are generally due over a twenty-year term. Economic theory implies that the gross amount of the payments to be received should be discounted to their present value using an imputed interest rate. In order to record the mortgage at its present value, the difference between the present value of these non-interest bearing loans using an imputed interest rate, and their face value is reflected as a Discount on Primary Mortgages. This discount is recognized as part of the Net Sales of Homes on the Statements of Activities in the period the loan is issued, and amortized over the term of the loan with amortized amounts reflected as Amortization of Mortgage Discounts in the applicable Statements of Activities.

The Contingent Mortgage represents the difference between the appraised fair market value and the cost of the house to the homeowner. This contingent mortgage is due immediately if the house is sold to anyone other than LHFH. It is forgiven at the end of the first mortgage term or if the house is sold back to LHFH. Therefore, it is assumed to have no economic value and, accordingly, is not recognized in the financial statements.

Mortgage loans at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Primary Mortgages	\$ 2,225,266	2,203,160
Unamortized Discounts on Primary Mortgages	<u>(886,173)</u>	<u>(851,849)</u>
	\$ <u>1,339,093</u>	<u>1,351,311</u>

NOTE 3: INVENTORY

Inventory consists of inventory of unsold homes, construction in progress and land for development. Inventory of unsold homes represents the cost of finished homes that are available for sale to prospective homeowners. When sold, the cost of the home is transferred from this account to Cost of Homes Sold on the Statement of Activities and offsets the sales price of the home.

Construction in progress and land for development generally consists of the cost of homes built or purchased, the cost of the land, and additional costs incurred to ready them for sale to homeowners. These amounts are transferred to inventory of unsold homes when all costs have been accumulated and the homes are ready to be sold.

LUBBOCK HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS
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NOTE 3: INVENTORY (Continued)

Inventory at June 30, 2016 and 2015 consisted of the following:

	<u>2016</u>	<u>2015</u>
Inventory of Unsold Homes	\$ 97,844	257,229
Construction in Progress	52,114	648
Land for Development	<u>266,013</u>	<u>42,180</u>
	<u>\$ 415,971</u>	<u>300,057</u>

At June 30, 2016 inventory of unsold homes represented two homes and construction in progress represented two homes. At June 30, 2015 inventory of unsold homes represented five homes and construction in progress represented one home.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment are depreciated over estimated lives as follows: buildings and improvements - 7 to 40 years; equipment – 3 to 7 years; vehicles – 5 years. Major categories of assets for the year ended June 30, 2016 and 2015 were as follows:

	<u>2016</u>	<u>2015</u>
Buildings and Improvements	\$ 199,876	199,876
Equipment	19,585	20,848
Vehicles	<u>26,003</u>	<u>6,000</u>
	245,464	226,724
Less: Accumulated Depreciation	<u>(135,003)</u>	<u>(121,879)</u>
	<u>\$ 110,461</u>	<u>104,845</u>

Depreciation expense for the years ended June 30, 2016 and 2015 was \$14,387 and \$10,676, respectively.

NOTE 5: RESTRICTIONS ON NET ASSETS

Temporarily restricted net assets of \$274,129 at June 30, 2016 have specific use restrictions for programs and projects designated by the donor or held for the benefit of others. As the funds are used for the restricted purpose, those amounts are reclassified to unrestricted net assets. The temporarily restricted net assets consist primarily of restricted cash and accounts receivable, less the homeowner escrow liability.

NOTE 6: FUNCTIONAL ALLOCATION OF EXPENSES

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

LUBBOCK HABITAT FOR HUMANITY, INC.NOTES TO FINANCIAL STATEMENTS
FOR THE YEARS ENDED JUNE 30, 2016 and 2015**NOTE 7: SUBSEQUENT EVENTS**

Subsequent events were evaluated by management through October 28, 2016, which is the date the financial statements were available to be issued. There were no subsequent events required to be disclosed.

NOTE 8: CONTINGENCIES AND CONCENTRATIONS OF RISK***Contingencies:***

LHFH received a notice after June 30, 2016 that an EEOC claim had been filed by a former employee alleging termination due to discrimination. Management believes there will be no material exposure and has not yet received an opinion from legal counsel concerning the potential liability at the date of this report.

Deposit Risk:

LHFH maintains its cash deposits in three Lubbock and two out of state financial institutions. The cash balances are insured by FDIC coverage up to \$250,000 at each institution. At June 30, 2016, LHFH had cash balances in excess of FDIC coverage of \$210,648 at one financial institution. LHFH has not experienced any losses from this excess and believes is not exposed to any significant credit risk on cash balances due to the stability of that financial institution.

Operations Risk:

LHFH is dependent upon the payment of mortgage notes receivable to continue building additional homes. If the homeowners do not perform under the term of the contracts, the loss would be the total of the notes receivable less the fair value of the related home and lot.

LHFH depends heavily on the time and services of community volunteers. Should local conditions occur which volunteers are no longer willing to contribute their time and services, the operations of LHFH could be severely affected.

LHFH also depends heavily on the financial contributions of the community to fund daily operations. Should the local economic conditions change and affect the amount of donations the community provides, the operations of LHFH could be severely affected.