HABITAT FOR HUMANITY
OF GREATER NASHVILLE

FINANCIAL STATEMENTS

June 30, 2017 and 2016

HABITAT FOR HUMANITY OF GREATER NASHVILLE

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FRASIERDEAN HOWARDCPAs

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity of Greater Nashville
Nashville, Tennessee

We have audited the accompanying financial statements of Habitat for Humanity of Greater Nashville (a nonprofit organization), which comprise the statements of financial position as of June 30, 2017 and 2016, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for 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 Habitat for Humanity of Greater Nashville, as of June 30, 2017 and 2016, 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.

Frasier, Dean & Howard, PLLC

September 12, 2017
Nashville, Tennessee

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENTS OF FINANCIAL POSITION
June 30, 2017 and 2016

	2017	2016
Assets		
Cash and cash equivalents, including escrow accounts of $541,197 and $504,395, respectively	$ 5,556,638	$ 5,836,091
Grants receivable	1,062,375	1,166,583
Sponsor and other receivables, net of allowance of $63,411 and $69,711, respectively	294,251	251,193
Real estate held for sale	107,789	65,215
Construction-in-progress - rehabilitation	-	1,258,057
Construction-in-progress - new homes	1,160,656	680,313
Property and equipment, net	8,460,758	457,586
Land held for development	1,448,779	1,584,458
Mortgage notes receivable, net of discounts of $22,543,816 and $21,298,510, respectively	29,215,232	27,819,693
New Markets Tax Credit ("NMTC") intangible assets, net	13,661	19,966
NMTC joint venture investment	1,530,506	1,505,694
NMTC joint venture cash	49,969	69,288
Other assets	1,487,236	961,225
Total assets	$ 50,387,850	$ 41,675,362
Liabilities and Net Assets		
Accounts payable and accrued expenses	$ 450,238	$ 253,522
Deferred revenue	829,705	1,277,873
Escrow accounts	524,473	495,957
Notes payable, net of unamoritzed discount and issuance costs	22,138,000	15,927,951
NMTC joint venture note payable, net of issuance costs	1,861,051	1,859,354
Unearned revenue on mortgage loans	4,421,781	4,550,948
Total liabilities	30,225,248	24,365,605
Net assets:		
Unrestricted	7,960,634	5,688,683
Temporarily restricted	12,201,968	11,621,074
Total net assets	20,162,602	17,309,757
Total liabilities and net assets	$ 50,387,850	$ 41,675,362

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2017
(with Comparative Totals for the Year Ended June 30, 2016)

	2017			
	Unrestricted	**Temporarily Restricted**	**Total**	**2016 Total**
Support and revenue:				
Transfers to homeowners	$ 6,094,827	$ -	$ 6,094,827	$ 4,759,774
Grant income	2,147,415	1,194,350	3,341,765	1,829,761
Contributions	2,334,624	350,000	2,684,624	2,167,808
ReStore sales	2,000,934	-	2,000,934	2,101,215
Mortgage loan discount amortization	1,264,279	-	1,264,279	980,438
Interest contributions	-	1,023,739	1,023,739	2,582,507
In-kind contributions	537,076	43,000	580,076	265,474
Other income	227,974	-	227,974	171,486
Gain on real estate held for sale	227,491	-	227,491	424,108
NMTC investment income	39,114	-	39,114	39,115
Interest income	10,319	-	10,319	9,605
	14,884,053	2,611,089	17,495,142	15,331,291
Net assets released from restrictions	2,030,195	(2,030,195)	-	-
Total support and revenue	16,914,248	580,894	17,495,142	15,331,291
Expenses:				
Program services	12,709,660	-	12,709,660	11,041,971
Supporting services	1,932,637	-	1,932,637	1,909,778
Total expenses	14,642,297	-	14,642,297	12,951,749
Change in net assets	2,271,951	580,894	2,852,845	2,379,542
Net assets at beginning of year	5,688,683	11,621,074	17,309,757	14,930,215
Net assets at end of year	$ 7,960,634	$12,201,968	$20,162,602	$17,309,757

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2016
(with Comparative Totals for the Year Ended June 30, 2015)

	2016			2015
	Unrestricted	Temporarily Restricted	Total	Total
Support and revenue:				
Transfers to homeowners	$ 4,759,774	$ -	$ 4,759,774	$ 6,333,399
Interest contributions	-	2,582,507	2,582,507	1,474,622
Contributions	2,060,189	107,619	2,167,808	2,374,558
ReStore sales	2,101,215	-	2,101,215	1,886,660
Grant income	1,721,761	108,000	1,829,761	2,232,950
Mortgage loan discount amortization	980,438	-	980,438	783,812
Gain on real estate held for sale	424,108	-	424,108	147,514
In-kind contributions	265,474	-	265,474	296,863
Other income	171,486	-	171,486	175,796
NMTC investment income	39,115	-	39,115	39,114
Interest income	9,605	-	9,605	4,585
	12,533,165	2,798,126	15,331,291	15,749,873
Net assets released from restrictions	1,146,521	(1,146,521)	-	-
Total support and revenue	13,679,686	1,651,605	15,331,291	15,749,873
Expenses:				
Program services	11,041,971	-	11,041,971	12,247,822
Supporting services	1,909,778	-	1,909,778	1,816,456
Total expenses	12,951,749	-	12,951,749	14,064,278
Change in net assets	727,937	1,651,605	2,379,542	1,685,595
Net assets at beginning of year	4,960,746	9,969,469	14,930,215	13,244,620
Net assets at end of year	$ 5,688,683	$11,621,074	$17,309,757	$14,930,215

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2017 and 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	$ 2,852,845	$ 2,379,542
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Non-cash grants	(713,009)	(354,039)
Non-cash construction costs	1,188,348	602,547
Interest contributions	(1,023,739)	(2,582,507)
Transfers to homeowners	(3,362,662)	(2,545,851)
Depreciation and amortization	110,104	152,091
Bad debt expense	-	42,504
Net gain on foreclosure and disposal of property	(227,491)	(415,342)
Mortgage loan discount amortization	(1,264,279)	(980,438)
Amortization of discount on notes payable and issuance costs	788,617	830,774
NMTC investment income allocation	(39,114)	(39,115)
Changes in operating assets and liabilities:		
Grants receivable	104,208	(692,055)
Sponsor and other receivables	(43,058)	(109,603)
Construction-in-progress	(269,343)	(307,371)
Land held for development	135,679	2,567,866
NMTC joint venture cash	19,319	19,157
Other assets	(526,011)	(97,853)
Accounts payable and accrued expenses	196,716	(137,450)
Deferred revenue	167,506	(136,242)
Escrow accounts	28,516	(45,505)
Net cash used in operating activities	(1,876,848)	(1,848,890)
Cash flows from investing activities:		
Improvements to real estate held for sale	(134,696)	(53,653)
Purchases of property and equipment	(5,170,971)	(146,104)
Proceeds from disposal of property	410,705	819,255
Mortgage payments received	3,011,143	2,365,153
NMTC joint venture investment net distribution	14,302	14,301
Net cash (used in) provided by investing activities	(1,869,517)	2,998,952
Cash flows from financing activities:		
Proceeds from issuance of notes payable	5,675,729	6,367,111
Cash paid for debt issuance costs	(76,138)	-
Repayments on notes payable	(2,132,679)	(4,329,625)
Net cash provided by financing activities	3,466,912	2,037,486
Net (decrease) increase in cash and cash equivalents	(279,453)	3,187,548
Cash and cash equivalents at beginning of year	5,836,091	2,648,543
Cash and cash equivalents at end of year	$ 5,556,638	$ 5,836,091

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2017

	Program Services					Supporting Services			
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Originations	ReStore Operations	Total	Fund Raising	Management and General	Total	Total
Construction costs-new homes	$ 3,717,514	$ -	$ -	$ -	$ 3,717,514	$ -	$ -	$ -	$ 3,717,514
Salaries and related expenses	713,446	657,868	-	1,020,290	2,391,604	888,248	363,937	1,252,185	3,643,789
Mortgage discounts	-	-	2,764,712	-	2,764,712	-	-	-	2,764,712
Construction costs-reconstruction	1,544,049	-	-	-	1,544,049	-	-	-	1,544,049
Interest and discount amortization	779,669	-	-	-	779,669	-	23,251	23,251	802,920
Lease expense	83,898	48,728	-	358,824	491,450	57,290	21,901	79,191	570,641
Office expenses	47,354	35,686	-	155,571	238,611	50,947	14,813	65,760	304,371
Legal and professional	29,458	66,522	-	2,272	98,252	2,370	78,715	81,085	179,337
Taxes and insurance	41,581	15,565	-	58,523	115,669	22,985	9,206	32,191	147,860
Depreciation	42,992	8,115	-	37,861	88,968	12,193	2,638	14,831	103,799
Tithe to Habitat International	101,881	-	-	-	101,881	-	-	-	101,881
Travel, meals and entertainment	2,764	10,515	-	10,994	24,273	62,226	13,299	75,525	99,798
Repairs and maintenance	64,535	2,691	-	21,310	88,536	2,690	950	3,640	92,176
Recruiting and training	11,054	2,195	-	5,868	19,117	48,794	22,111	70,905	90,022
Vehicle expenses	42,421	-	-	38,451	80,872	191	-	191	81,063
Printing and public relations	172	8,012	-	9,647	17,831	60,651	-	60,651	78,482
Other	11,655	21,886	-	7,665	41,206	6,754	28,751	35,505	76,711
Special events	-	-	-	-	-	67,347	-	67,347	67,347
Bank and credit card fees	7,350	-	-	30,463	37,813	7,095	7,234	14,329	52,142
Small tools and equipment	32,049	757	-	14,956	47,762	3,077	-	3,077	50,839
Sponsor and volunteer appreciation	3,947	633	-	2,211	6,791	35,256	187	35,443	42,234
Advertising	2,069	919	-	6,299	9,287	11,225	-	11,225	20,512
NMTC amortization	-	-	-	-	-	-	6,305	6,305	6,305
Deconstruction	-	-	-	3,793	3,793	-	-	-	3,793
	$ 7,279,858	$ 880,092	$ 2,764,712	$ 1,784,998	$ 12,709,660	$ 1,339,339	$ 593,298	$ 1,932,637	$ 14,642,297

See accompanying notes.

HABITAT FOR HUMANITY OF GREATER NASHVILLE
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2016

	Program Services					Supporting Services			
	Construction	Family Support and Educational Ministries	Discounts on Mortgage Originations	ReStore Operations	Total	Fund Raising	Management and General	Total	Total
Construction costs-new homes	$ 3,707,724	$ -	$ -	$ -	$ 3,707,724	$ -	$ -	$ -	$ 3,707,724
Salaries and related expenses	714,489	640,702	-	1,020,823	2,376,014	862,516	339,079	1,201,595	3,577,609
Mortgage discounts	-	-	2,058,206	-	2,058,206	-	-	-	2,058,206
Interest and discount amortization	853,048	-	-	-	853,048	-	32,872	32,872	885,920
Construction costs-reconstruction	746,856	-	-	-	746,856	-	-	-	746,856
Lease expense	76,227	40,972	-	260,535	377,734	47,343	17,915	65,258	442,992
Office expenses	44,668	33,613	-	131,979	210,260	44,033	21,595	65,628	275,888
Legal and professional	17,360	55,578	-	3,405	76,343	3,950	92,846	96,796	173,139
Depreciation	55,653	16,758	-	45,054	117,465	20,792	5,832	26,624	144,089
Taxes and insurance	31,890	13,739	-	52,295	97,924	16,134	5,343	21,477	119,401
Repairs and maintenance	85,273	3,291	-	16,927	105,491	3,659	1,105	4,764	110,255
Other	6,594	32,580	-	4,078	43,252	10,439	33,397	43,836	87,088
Printing and public relations	599	7,055	-	6,681	14,335	64,933	3,427	68,360	82,695
Recruiting and training	2,000	1,056	-	1,819	4,875	47,269	27,566	74,835	79,710
Travel, meals and entertainment	4,807	14,632	-	9,509	28,948	37,589	11,258	48,847	77,795
Tithe to Habitat International	60,406	-	-	-	60,406	-	-	-	60,406
Vehicle expenses	40,295	-	-	19,143	59,438	232	-	232	59,670
Bank and credit card fees	7,368	13	-	33,266	40,647	4,700	5,831	10,531	51,178
Small tools and equipment	28,460	-	-	14,716	43,176	2,524	-	2,524	45,700
Bad debt expense	-	-	-	-	-	-	42,504	42,504	42,504
Special events	-	-	-	-	-	42,366	-	42,366	42,366
Sponsor and volunteer appreciation	1,715	-	-	1,699	3,414	31,539	90	31,629	35,043
Advertising	-	1,037	-	9,198	10,235	22,795	-	22,795	33,030
NMTC amortization	-	-	-	-	-	-	6,305	6,305	6,305
Deconstruction	-	-	-	6,180	6,180	-	-	-	6,180
	$ 6,485,432	$ 861,026	$ 2,058,206	$ 1,637,307	$ 11,041,971	$ 1,262,813	$ 646,965	$ 1,909,778	$ 12,951,749

See accompanying notes.

NOTE 1 – ORGANIZATION AND PURPOSE

Habitat for Humanity of Greater Nashville ("Habitat"), a nonprofit corporation, was chartered by the State of Tennessee on March 25, 1985. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Habitat have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below.

Income Taxes

Habitat is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Therefore, no provision for income taxes has been made.

Habitat follows guidance that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. This guidance prescribes a minimum probability threshold that a tax position must meet before a financial statement benefit is recognized. The minimum threshold is defined as a tax position that is more likely than not to be sustained upon examination by the applicable taxing authority, including resolution of any related appeals or litigation processes, based on the technical merits of the position. The tax benefit to be recognized is measured as the largest amount of benefit that is greater than fifty percent likely of being realized upon ultimate settlement. Habitat has no tax penalties or interest reported in the accompanying financial statements. Habitat has no uncertain tax positions at June 30, 2017 and 2016.

Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of Habitat and changes therein are classified and reported as follows:

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

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met either by actions of Habitat and/or the passage of time. Temporarily restricted net assets at June 30, 2017 and 2016 consist of contributions received and receivable restricted for home construction, the purchase of land, and the unamortized discount on below market interest rate loans payable.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation (Continued)

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Habitat. Habitat has no permanently restricted net assets at June 30, 2017 and 2016.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 financial statements, and the reported amounts of revenues and expenses and allocation of functional expenses during the reporting period. Actual results could differ from those estimates.

Cash Equivalents

For purposes of the statements of cash flows, Habitat considers all highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Home Sales and Mortgage Notes Receivable

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgage notes receivable. These mortgage payments do not include interest and, accordingly, the mortgages have been discounted at various interest rates based upon prevailing market rates at the inception of the mortgages. Discounts are amortized using the straight-line method over the lives of the mortgages. The discounted value of mortgages at the time of sale is generally less than the home's fair market value. Therefore, management believes that losses resulting from non-payment of mortgages are not reasonably probable, and accordingly, no allowance for mortgage notes receivable has been recorded. Past due status is based on contractual terms of the mortgage notes receivable. At 120 days past due, the mortgage notes receivable become subject to foreclosure.

Unearned revenue on mortgage notes receivable represents the discounted value of non-interest bearing second and third mortgage loans issued on Habitat homes. The homeowner is required to sign one or more additional mortgages for the difference between the estimated fair market value of the home and the payable mortgage balances as of the transfer date. Certain of these mortgages are fully forgiven if the homeowner lives in the home for a certain period of time and complies with all other

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Home Sales and Mortgage Notes Receivable (Continued)

covenants and restrictions per the deed of trust. In the event the homeowner does not comply with these restrictions, the mortgage balance will be recognized as income at the time it is collected. Habitat generally does not foresee collection of the non-payable second and third mortgage loans except in the event of sale, refinance or foreclosure of the home.

Property and Equipment

Property and equipment is reported at cost at the date of purchase or at fair market value at the date of gift. Depreciation is computed using the straight-line method over the estimated useful lives of the assets which range from three to seventeen years.

Land Held for Development

Land held for development consists of land and improvements to be utilized as lots for future Habitat homeowners. Costs incurred to improve land are capitalized when incurred. Interest incurred on related debt during the construction period is capitalized as incurred. The total allocated cost of each lot is charged to construction-in-progress upon commencement of building activities. The Organization sold 183 acres of land held for development for approximately $1,800,000 to an unrelated entity during the year ended June 30, 2016. There was no significant gain or loss resulting from this transaction.

Deferred Revenue

Deferred revenue consists of deposits received on conditional promises to give and amounts received through The Housing Fund, Inc. via a Community Development Block Grant. Deposits on conditional promises to give are from sponsors of future home building and totaled $829,705 and $630,799 at June 30, 2017 and 2016, respectively. Included in deferred revenue at June 30, 2016 is $647,074 received through The Housing Fund, Inc. representing amounts that have been expended toward the purchase and rehabilitation of homes in flood impacted areas. The deferred revenue was recognized as income upon completion of the rehabilitation and sale of the home to a qualifying family during the year ended June 30, 2017.

Revenue Recognition

Contributions are recognized as revenue when received. Contributed land and equipment are recorded at estimated fair value at the date of the donation. In-kind contributions (primarily construction materials and land for development) are recorded based on their estimated value on the date of receipt.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

No amounts have been reflected in the financial statements for donated labor by unskilled volunteers as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to Habitat's program services.

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

ReStore sales are recognized as revenue at the time merchandise is transferred to the customer. Historically, sales returns have not been significant.

Grant Income

Grant funds are earned and reported as revenue when Habitat has incurred expenses in compliance with the specific restrictions of the grant agreement. Grant funds that are restricted for use in home construction are reflected as unrestricted revenue since these funds are generally received and spent during the same year.

Program Services

Program services include construction, ReStore operations, family support and educational ministries and the discounts on mortgage originations. The cost of home building is charged to program services upon transfer to the homeowner. Program services include the cost of new homes transferred, which have an average cost of $116,172 and $119,604 for the years ended June 30, 2017 and 2016, respectively.

Advertising

Advertising costs are charged to expense as incurred. Advertising expense totaled $20,512 and $33,030 for the years ended June 30, 2017 and 2016, respectively.

Debt Issuance Costs

Costs relating to the issuance of notes payable are amortized to interest expense over the term of the debt, using the straight-line method. The unamortized amount is presented as a reduction of long-term debt on the statements of financial position.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Summarized Financial Information

The financial statements include certain 2015 summarized comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with Habitat's financial statements for the year ended June 30, 2015, from which the summarized information was derived.

Reclassifications

Certain reclassifications have been made to the 2016 financial statements to conform to the 2017 presentation.

Subsequent Events

Habitat evaluated subsequent events through September 12, 2017 when these financial statements were available to be issued. Management is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

NOTE 3 – GRANTS RECEIVABLE

A summary of grants receivable as of June 30 is as follows:

	2017	2016
Federal Home Loan Bank	$ 770,000	$ 888,750
Metropolitan Development and Housing Agency	183,125	188,759
Foundations and other	109,250	89,074
	$ 1,062,375	$ 1,166,583

NOTE 4 – UNCONDITIONAL PROMISES TO GIVE

Habitat has included unconditional promises to give in sponsor and other receivables. Unconditional promises to give consist of the following at June 30:

	2017	2016
Unconditional promises to give	$ 357,662	$ 320,904
Less: allowance for uncollectible contributions	(63,411)	(69,711)
Net unconditional promises to give	294,251	251,193
Less: amounts receivable in less than one year, net	(224,251)	(251,193)
Receivable in one to five years, net	$ 70,000	$ -

NOTE 5 – CONSTRUCTION-IN-PROGRESS – REHABILITATION

Construction-in-progress—rehabilitation consists of homes purchased with funds provided by The Housing Fund, Inc. in flood impacted areas for the purpose of rehabilitation and sale to qualified partner families. At June 30, 2017 and 2016, costs accumulated under this agreement totaled $0 and $1,258,057, respectively.

A summary of rehabilitation activity for 2017 is as follows:

	Number	Costs
Homes under rehabilitation, June 30, 2016	9	$ 1,258,057
Additional costs incurred on beginning inventory	-	134,600
Homes purchased and started in 2017	1	151,392
Homes closed in 2017	(10)	(1,544,049)
Homes under rehabilitation, June 30, 2017	-	$ -

NOTE 6 – CONSTRUCTION-IN-PROGRESS – NEW HOMES

A summary of new home construction activity for 2017 is as follows:

	Number	Costs
New homes under construction, June 30, 2016	18	$ 680,313
Additional costs incurred on beginning inventory	-	1,252,556
New homes started in 2017	36	2,945,301
New homes closed in 2017	(32)	(3,717,514)
New homes under construction, June 30, 2017	22	$ 1,160,656

NOTE 7 – PROPERTY AND EQUIPMENT

A summary of property and equipment as of June 30 is as follows:

	2017	2016
Construction in progress	$ 7,994,262	$ -
Buildings	249,720	249,720
Office equipment	263,931	261,841
Leasehold improvements	226,421	226,421
Vehicles and trailers	404,379	324,695
Other	297,893	292,893
	9,436,606	1,355,570
Less accumulated depreciation	(975,848)	(897,984)
	$ 8,460,758	$ 457,586

NOTE 7 – PROPERTY AND EQUIPMENT (Continued)

Construction in progress at June 30, 2017 includes a 65,000 square-foot building on 5 acres of land and related renovations. Habitat is consolidating all Davidson County operations in July 2017 at this location, including its ReStores, warehouses and offices.

NOTE 8 – LAND HELD FOR DEVELOPMENT

Land held for development consists of real property and incurred development costs for the purpose of future home construction. Land held for development consists of the following by area at June 30:

	2017	2016
Park Preserve	$ 1,020,631	$ 922,290
Wilson County	178,471	114,017
Dickson County	141,822	66,296
Edison Park	107,855	103,578
Park at Priest Lake	-	214,562
Hallmark	-	141,425
Cheatham County	-	22,290
	$ 1,448,779	$ 1,584,458

NOTE 9 – MORTGAGE NOTES RECEIVABLE

At June 30, 2017 and 2016, Habitat holds mortgage notes receivable totaling $51,759,048 and $49,118,203, respectively, at face value generally with original maturities of 30 years. The notes are non-interest bearing mortgages, payable in equal monthly installments, and are secured by deeds of trust on the properties. The notes have been discounted at various interest rates ranging from 4.5% to 9% using the straight line method over the lives of the mortgages. Mortgages are reported net of unamortized discount. Mortgage notes receivable and the related discount are summarized as follows at June 30:

	2017	2016
First mortgages	$ 38,933,345	$ 37,071,683
Second mortgages	11,424,004	10,700,781
Third mortgages	1,401,699	1,345,739
	51,759,048	49,118,203
Less unamortized discount	(22,543,816)	(21,298,510)
	$ 29,215,232	$ 27,819,693

NOTE 9 – MORTGAGE NOTES RECEIVABLE (Continued)

Principal payments due on mortgage notes receivable are as follows:

Year ending June 30,	
2018	$ 2,038,631
2019	2,015,922
2020	1,997,061
2021	1,971,778
2022	1,941,056
Thereafter (including non-paying second and third mortgages of $6,382,081)	41,794,600
Notes receivable at face value	51,759,048
Less: unamortized discount	(22,543,816)
	$ 29,215,232

Following is a table which includes an aging analysis of the recorded investment of past due mortgage notes receivable as of June 30:

	2017	2016
31-60 days past due	$ 705,328	$ 1,180,285
61-90 days past due	214,885	298,025
Greater than 90 days past due	295,356	387,741
Total past due	1,215,569	1,866,051
Current	50,543,479	47,252,152
	$ 51,759,048	$ 49,118,203

NOTE 10 – NEW MARKETS TAX CREDIT INTANGIBLE ASSETS

Habitat incurred $44,136 in guarantor fees related to its NMTC financing in August 2012, to be amortized over 7 years, the period to which the guarantee applies. The guarantor fee represents fees paid to the third party administrator in the transaction, who is responsible for ensuring that Habitat performs and complies with all aspects of the transaction requirements.

As of June 30, the balances of NMTC intangible assets and accumulated amortization are as follows:

	2017	2016
Qualified active low income community business ("QALICB") guarantor fee	$ 44,136	$ 44,136
Accumulated NMTC amortization	(30,475)	(24,170)
NMTC intangible assets, net	$ 13,661	$ 19,966

NOTE 11 – NEW MARKETS TAX CREDIT JOINT VENTURE INVESTMENT

In August 2012, Habitat invested, along with five other Habitat affiliates, in a joint venture, CCML Leverage II, LLC ("LLC"), to take advantage of New Markets Tax Credit ("NMTC") financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. Habitat invested a combination of cash and construction in progress totaling $1,430,134 for a 16.67% ownership stake, enabling it to secure a 15-year loan in the amount of $1,880,000 payable to CCM Community Development XXVII, LLC ("CCM"), a community development entity. The loan proceeds were used solely for the purpose of constructing and selling qualified housing properties to low income residents.

The investment in joint venture is accounted for using the equity method and the carrying amount of the investment is increased for Habitat's proportionate share of the joint venture's earnings and decreased for Habitat's proportionate share of the joint venture's losses. The activity of the NMTC joint venture investment during the year ended June 30 is as follows:

	2017	2016
Beginning balance	$ 1,505,694	$ 1,480,880
Capital contributed	-	-
Distributions received	(14,302)	(14,301)
Share of income	39,114	39,115
Ending balance	$ 1,530,506	$ 1,505,694

NOTE 12 – NOTES PAYABLE

	2017	2016
Notes payable to Tennessee Housing Development Agency, non-interest bearing, payable in total monthly principal installments totaling $78,430 (at June 30, 2017) with varying maturities through July 2047, secured by non-interest bearing first mortgages held by Habitat, with a discounted value of $11,561,587. The notes payable have an undiscounted balance outstanding of $21,365,874 and $20,516,962 at June 30, 2017 and 2016, respectively. Discount rates ranging from 4.5% to 5.25% were applied to arrive at net present value of the notes payable at issuance. Contribution revenue of $919,248 and $478,942 has been recognized in 2017 and 2016 respectively, to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense on the straight-line method over the respective terms of the notes. The unamortized discount at June 30, 2017 and 2016 amounted to $9,804,287 and $9,399,959, respectively.	$ 11,561,587	$ 11,117,003

NOTE 12 – NOTES PAYABLE (Continued)

	2017	2016
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling $16,495, maturing at multiple times through December 2045. The notes payable have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding of $4,257,735 and $4,890,885 at June 30, 2017 and 2016, respectively. Contribution revenue of $1,959,239 was recognized in 2016 to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense on the straight-line method over the respective terms of the notes. The unamortized discount at June 30, 2017 and 2016 amounted to $1,674,026 and $1,916,083, respectively.	2,583,709	2,974,802
Notes payable to Habitat International, non-interest bearing, payable in monthly principal installments ranging from $170 to $3,125 through June 2021.	302,091	438,136
Notes payable to The Housing Fund, Inc. secured by certain real property, non-interest bearing, payable in 120 to 180 equal monthly principal installments ranging from $244 to $617, through approximately June 2030. The notes payable have been discounted using a rate of 4.5%. Contribution revenue of $104,491 and $124,501 was recognized in 2017 and 2016, respectively, to present the difference between the present value of the notes payable and their undiscounted balances of $1,505,332 and $1,448,467, at June 30, 2017 and 2016, respectively. The discount is being amortized to interest expense on the straight-line method over the respective terms of the notes. The unamortized discount at June 30, 2017 and 2016 amounted to $213,338 and $124,501, respectively.	1,291,994	1,323,966
Notes payable to bank secured by mortgages receivable, non-interest bearing, payable in monthly principal installments totaling $633, maturing at multiple times through September 2027. The notes payable have been discounted using a rate of 4.5%. The notes have an undiscounted balance outstanding at June 30, 2017 and 2016 of $59,344 and $92,921, respectively. Contribution revenue of $19,831		

NOTE 12 – NOTES PAYABLE (Continued)

	2017	2016
was recognized in 2016 to present the difference between the undiscounted notes payable balances and their present value at time of issuance. The discount is being amortized to interest expense on the straight-line method over the respective terms of the notes. The unamortized discount at June 30, 2017 and 2016 amounted to $11,838 and $18,877, respectively.	47,506	74,044
Note payable to bank, unsecured at a variable interest rate of 4% below prime (.25% at June 30, 2017), maturing May 2018.	100,000	-
Note payable to bank, secured by certain real property with a net book value of $7,994,262 at June 30, 2017, at a variable interest rate of 4% below prime (.25% at June 30, 2017), with a twenty-year amortization maturing in October 2023.	6,251,113	-
	$ 22,138,000	$ 15,927,951

Future principal maturities of notes payable are as follows:

Year ending June 30,	
2018	$ 1,771,123
2019	1,687,462
2020	1,668,670
2021	1,657,086
2022	1,630,634
Thereafter	25,495,401
Total principal maturities	33,910,376
Debt issuance costs	(68,887)
Amounts representing imputed interest	(11,703,489)
	$ 22,138,000

NOTE 13 – LINE OF CREDIT

Habitat has a $950,000 line of credit agreement with a bank bearing interest at the bank's index rate plus 1% (4.5% at June 30, 2017). The line of credit is secured by real estate. The line of credit has a maturity date of December 2017. At June 30, 2017 and 2016, no borrowings were outstanding under the line of credit agreement.

NOTE 14 – NEW MARKETS TAX CREDIT JOINT VENTURE NOTE PAYABLE

Habitat has a loan payable to CCM Community Development XXVII, LLC ("CCM"), a community development entity, dated August 31, 2012 as part of the NMTC transaction. It is a 15-year loan bearing interest at 0.76% with semi-annual interest-only payments commencing on November 10, 2012 and continuing until November 10, 2020. Principal and interest payments are to commence on November 10, 2020 due semi-annually to then fully amortize the principal balance over an 8-year period, maturing May 10, 2028.

The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The debt is associated with a put option feature under an option agreement between the joint venture's related parties that is expected to be exercised in 2020 that will effectively extinguish the liability from Habitat. The balance of the note payable at June 30, 2017 and 2016 is $1,880,000, net of issuance costs of $18,949 and $20,646, respectively. Debt issuance costs of $27,151 are being amortized to interest expense over the 15-year term of the loan.

Simultaneous with these transactions, the LLC entered into an option agreement (the "Agreement") with U.S. Bancorp Community Development Corporation ("USBCDC"), the federal tax credit investor, who is the sole-member of CCM CD 27 Investment Fund, LLC (the "Fund"), and the upstream effective owner of CCM. Under the terms of the option agreement, USBCDC is expected to place its ownership interest into the Fund for $1,000, during the six month put period beginning September 15, 2019.

Exercise of this option will effectively extinguish Habitat's outstanding debt owed to the Fund. Habitat will recognize income on the forgiveness of debt in an amount approximating the difference in the book value of the investment and the debt. The investment and debt will then come off Habitat's books. All entities including CCML Leverage II, LLC, will then be dissolved effectively ending the structured financing deal.

Pursuant to the agreement, Habitat is required to comply with the NMTC requirements as generally set forth in the Internal Revenue Code ("IRC") Section 45D, including that Habitat maintain a separate part of business such that the separate business will qualify as a qualified active low-income community business as defined in IRC Section 45D. Only the separate part of business assets of Habitat was pledged as security under the agreement with CCM.

NOTE 15 – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist principally of contributions restricted for future programs or improvements to existing programs. Significant components include the following at June 30:

	2017	2016
Unamortized discount on notes payable	$ 11,703,489	$ 11,459,420
Donor restricted contributions	421,154	159,399
Unconditional promises to give, net	77,325	2,255
	$ 12,201,968	$ 11,621,074

NOTE 16 – CONCENTRATIONS

Habitat maintains its cash in bank accounts that at times may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Deposits are insured by the Federal Deposit Insurance Corporation ("FDIC"). Management believes Habitat is not exposed to any significant credit risk on its cash balances. Uninsured balances at June 30, 2017 and 2016 totaled $202,333 and $141,035, respectively.

NOTE 17 – COMMITMENTS AND CONTINGENCIES

In connection with the development of Park Preserve, Edison Park and Hallmark subdivisions, Habitat has obtained letters of credit totaling $1,066,000 and $677,000 at June 30, 2017 and 2016, respectively, securing the completion of certain improvements. Habitat had no outstanding borrowings associated with these letters of credit at June 30, 2017 and 2016. The letters of credit expire August 2017 through August 2018.

Habitat leases certain office and warehouse space and equipment under leasing arrangements classified as operating leases. Rent expense under such arrangements amounted to $570,641 and $442,992 for the years ended June 30, 2017 and 2016, respectively. A summary of future minimum rental payments as of June 30, 2017 is as follows:

Year ending June 30,	
2018	$ 50,347
2019	26,948
2020	24,928
2021	14,535
	$ 116,758

Habitat is, from time to time, involved in litigation. In the opinion of management, no current or threatened litigation will have a material effect on Habitat's financial position or activities.

NOTE 18 – IN-KIND CONTRIBUTIONS

In-kind contributions received by Habitat are recorded based on their estimated value on the date of receipt. A summary of in-kind contributions is as follows for the years ended June 30:

	2017	2016
Building supplies and home appliances	$ 580,076	$ 265,474

Approximately 7,200 and 7,100 individuals contributed significant amounts of time to Habitat's activities during the years ended June 30, 2017 and 2016, respectively. The financial statements do not reflect the value of these services because they do not meet the recognition criteria prescribed by accounting principles generally accepted in the United States of America.

NOTE 19 – THE HOUSING FUND, INC. COMMUNITY DEVELOPMENT BLOCK GRANT

Habitat entered into a grant and loan agreement with The Housing Fund, Inc. to acquire and rehabilitate homes which are located in areas that were impacted by the May 2010 floods in Nashville. The grant funds are provided by a Community Development Block Grant. Total funds available to Habitat under the agreement are not to exceed $3,000,000 for Phase I. 70% of the funds received were in the form of a grant with the remaining 30% repayable under a 10 year note payable at 0% interest. Acquisition of properties required approval by The Housing Fund, Inc. prior to purchase. In 2015, Phase II of this grant and loan agreement with The Housing Fund, Inc. began which allowed for funds not to exceed $2,331,590. 60% of the funds received were in the form of a grant with the remaining 40% payable under a 15 year note payable at 0% interest. $250,000 of Phase II funds were used to complete the rehabilitation of homes acquired under Phase I. Ten and five homes were transferred to qualified families during the years ended June 30, 2017 and 2016, respectively.

Balances related to the agreement in the accompanying financial statements are as follows at June 30:

	2017	2016
Grants receivable	$ 183,125	$ -
Construction-in-progress - rehabilitation	$ -	$ 1,258,057
Deferred revenue	$ -	$ 647,074
Notes payable	$ 1,291,994	$ 1,323,966
Grant income	$ 1,094,443	$ 553,064

NOTE 20 – RETIREMENT PLAN

Habitat has a defined contribution retirement plan for its employees, which was established as a Simple IRA. As described in the plan document, substantially all full time employees are eligible to participate in the plan. Discretionary contributions may be made at the option of the board of directors.

NOTE 21 – SUPPLEMENTAL CASH FLOW INFORMATION

The following is supplemental cash flow information required by accounting principles generally accepted in the United States of America.

Supplemental Cash Flow Information

	2017	2016
Interest paid	$ -	$ 59,512

Supplemental Schedule of Non-Cash Investing and Financing Activities

	2017	2016
Issuance of non-interest bearing mortgage loans	$ 6,127,374	$ 4,604,057
Discount on non-interest bearing mortgage loans	(2,764,712)	(2,058,206)
Transfers to homeowners subject to non-interest bearing mortgage loans	$ 3,362,662	$ 2,545,851
Loans transferred to real estate held for sale	$ 91,092	$ 136,328
Purchase of property and equipment through issuance of note payable	$ 2,936,000	$ -
Additions to construction-in-progress - rehabilitation through deferred revenue and issuance of notes payable	$ 109,891	$ 726,208
Donated lots included in deferred revenue	$ 31,400	$ -

NOTE 22 – RELATED PARTIES

At June 30, 2017 and 2016, Habitat owed notes payable, net of discounts, totaling approximately $9,051,000 and $3,049,000, respectively, to financial institutions which have executives who serve on Habitat's board of directors.

Habitat receives voluntary contributions, house sponsorship funding, in-kind contributions, and volunteer labor from various board members and their companies throughout the year. Some professional services are also purchased from board members and their companies throughout the course of the year. None of these transactions are considered to be individually significant to Habitat's financial statements.

NOTE 22 – RELATED PARTIES (Continued)

Habitat annually remits a portion of its unrestricted contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2017 and 2016, Habitat contributed $101,881 and $60,406, respectively, to Habitat International. At June 30, 2017 and 2016, the accompanying statements of financial position included tithe payable to Habitat International of $1,246 and $2,976, respectively.

Habitat has received Self-Help Homeownership Opportunity Program ("SHOP") funds from Habitat International. 75% of the funds received were in the form of a grant with the remaining 25% repayable under non-interest bearing four year notes payable. During the years ended June 30, 2017 and 2016, Habitat was granted $111,307 and $272,443, respectively, of SHOP funds of which $93,750 and $52,672 is owed at June 30, 2017 and 2016, respectively. At June 30, 2017 and 2016, the balances of the loans totaled $302,091 and $438,136, respectively.

NOTE 23 – CHANGE IN ACCOUNTING FOR DEBT ISSUANCE COSTS

Effective July 1, 2016, Habitat adopted Accounting Standards Update (ASU) No. 2015-03: *Interest-Imputation of Interest (Subtopic 835-30), Simplifying the Presentation of Debt Issuance Costs.* ASU 2015-03 requires that Habitat change the presentation of debt issuance costs on Habitat's financial statements. Under the new method, debt issuance costs are presented as a reduction of long-term debt instead of being presented as an asset on Habitat's statements of financial position (see Note 12). Except for the financial statement line items described below, the adoption of ASU 2015-03 did not have an impact on change in net assets or cash flows for any period presented. The June 30, 2016, statement of financial position has been restated to reclassify $20,646 of debt issuance costs from New Markets Tax Credit ("NMTC") intangible assets to a reduction of NMTC joint venture note payable.

In addition, ASU 2015-03 requires the amortization of debt issuance costs be reported as interest expense, rather than amortization expense. The June 30, 2016 statement of activities has been restated to reclassify $1,697 of amortized debt issuance costs from amortization expense to interest expense. On the June 30, 2017 statement of activities, $8,948 of amortized debt issuance costs are included in interest expense.