

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Financial Statements

June 30, 2015

HABITAT FOR HUMANITY GREATER BOSTON, INC.

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June 30, 2015

Independent Auditors' Report

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Independent Auditors' Report

To the Board of Directors of
Habitat for Humanity Greater Boston, Inc.
Boston, Massachusetts

We have audited the accompanying financial statements of Habitat for Humanity Greater Boston, Inc. (a nonprofit organization), (the Organization), which comprise the statement of financial position as of June 30, 2015, and the related statements of activities, functional expenses and cash flows for the year 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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 the Organization as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

The financial statements of Habitat for Humanity Greater Boston, Inc. as of June 30, 2014, were audited by other auditors whose report dated March 16, 2015 expressed an unmodified opinion on those statements. The prior year summarized comparative information is not intended to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. 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 financial statements from which it has been derived.

Kevin P. Martini & Associates, P.C.

June 7, 2016

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Statement of Financial Position

As of June 30, 2015

With Comparative Totals as of June 30, 2014

	2015	2014
ASSETS		
Current Assets		
Cash and cash equivalents	\$ 1,184,550	\$ 925,964
Cash - New Markets Tax Credit (NMTC) (Note 9)	10,524	331,658
Total cash and cash equivalents	1,195,074	1,257,622
Accounts receivable	895	-
Promises to give	117,628	57,878
Prepaid expenses and other current assets	6,015	20,937
Note receivable, current portion	-	3,619
Mortgage notes receivable, current portion	394,294	376,707
Total current assets	1,713,906	1,716,763
Property and Equipment		
Office equipment	33,547	33,547
Leasehold improvements	229,289	229,289
Furniture and equipment	18,570	18,570
Vehicle	22,500	22,500
Total property and equipment	303,906	303,906
Less: accumulated depreciation	(209,916)	(172,512)
Total net property and equipment	93,990	131,394
Other Assets		
Note receivable, net of current portion	164,134	160,748
Mortgage notes receivable, net of current portion and discount	6,645,481	6,642,124
Housing-land and construction in progress	1,079,667	1,173,089
Investment in Partnership (Note 9)	1,925,054	1,915,376
Investment in certificate of deposit	5,175	5,175
Closing costs and fees, net of accumulated amortization of \$20,682 and \$6,894, respectively - NMTC (Note 1)	169,951	183,739
Security deposits	14,872	14,872
Audit and tax fee reserve fund - NMTC (Note 5)	44,799	52,944
Loan escrow	13,720	13,720
Total other assets	10,062,853	10,161,787
Total Assets	\$ 11,870,749	\$ 12,009,944
LIABILITIES AND NET ASSETS		
Current Liabilities		
Accounts payable and accrued expenses	\$ 129,027	\$ 136,625
Down payment deposits	2,397	7,000
Agency accounts	1,001	7,725
Notes payable, current portion	239,511	267,458
Land purchase deposit	8,000	-
Total current liabilities	379,936	418,808
Long-Term Liabilities		
Notes payable, net of current portion	3,295,252	3,476,706
Total long-term liabilities	3,295,252	3,476,706
Total liabilities	3,675,188	3,895,514
Net Assets		
Unrestricted	8,077,933	8,039,430
Temporarily restricted	117,628	75,000
Total net assets	8,195,561	8,114,430
Total Liabilities and Net Assets	\$ 11,870,749	\$ 12,009,944

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

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Statement of Activities

For the Year Ended June 30, 2015
With Comparative Totals for the Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	2015 Total	2014 Total
Support and Revenue				
Contributions	\$ 946,980	\$ 177,628	\$ 1,124,608	\$ 963,195
In-kind contributions	622,567	-	622,567	485,950
Special events	230,858	-	230,858	262,126
ReStore	405,486	-	405,486	348,997
Sale of property	600,000	-	600,000	888,000
Imputed interest	(234,204)	-	(234,204)	107,049
Interest/dividend income	32,967	-	32,967	8,510
Net assets released from restrictions	135,000	(135,000)	-	-
	<u>2,739,654</u>	<u>42,628</u>	<u>2,782,282</u>	<u>3,063,827</u>
Expenses				
Program services				
Family services expenses	198,475	-	198,475	223,840
Pre/post conveyance expenses	1,275,967	-	1,275,967	1,767,023
Restore	806,673	-	806,673	736,164
Total program services	<u>2,281,115</u>	<u>-</u>	<u>2,281,115</u>	<u>2,727,027</u>
General and administrative	209,554	-	209,554	257,179
Fundraising	210,482	-	210,482	195,084
	<u>2,701,151</u>	<u>-</u>	<u>2,701,151</u>	<u>3,179,290</u>
Total Change in Net Assets	38,503	42,628	81,131	(115,463)
Net Assets at Beginning of Year	<u>8,039,430</u>	<u>75,000</u>	<u>8,114,430</u>	<u>8,229,893</u>
Net Assets at End of Year	<u>\$ 8,077,933</u>	<u>\$ 117,628</u>	<u>\$ 8,195,561</u>	<u>\$ 8,114,430</u>

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

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Statement of Functional Expenses

For the Year Ended June 30, 2015

With Comparative Totals for the Year Ended June 30, 2014

	Family Services Expenses	Pre/Post Conveyance Expenses	ReStore	Total Program Expenses	General and Administrative Expenses	Fundraising Expenses	2015 Total	2014 Total
Salaries	\$ 103,058	\$ 293,440	\$ 184,431	\$ 580,929	\$ 86,861	\$ 78,114	\$ 745,904	\$ 760,371
Payroll taxes	9,939	28,299	17,786	56,024	8,376	7,533	71,933	65,951
Benefits	6,874	19,572	12,301	38,747	5,795	5,209	49,751	69,539
Salaries and related expense	119,871	341,311	214,518	675,700	101,032	90,856	867,588	895,861
Advertising	-	788	343	1,131	262	-	1,393	22,550
Amortization closing costs	-	13,788	-	13,788	-	-	13,788	6,894
Applicant costs	6,026	1,325	-	7,351	-	-	7,351	3,966
Bank charges	-	-	9,954	9,954	3,586	-	13,540	13,615
Bonds and permits	112	655	-	767	-	-	767	386
Consultants	-	4,633	2,131	6,764	50,321	28,490	85,575	72,063
Cost of goods sold	-	-	405,486	405,486	-	-	405,486	346,147
Cost of homes sold	-	565,034	-	565,034	-	-	565,034	1,109,332
Depreciation	10,472	11,223	-	21,695	4,486	11,223	37,404	39,312
Dues, fees and subscriptions	180	20,018	-	20,198	617	-	20,815	34,114
Equipment rental	5,105	2,183	692	7,980	-	530	8,510	8,632
Insurance	-	11,739	-	11,739	5,803	-	17,542	23,204
Interest	-	56,595	-	56,595	-	-	56,595	52,329
Miscellaneous	1,832	1,255	773	3,860	783	252	4,895	4,941
Office supplies	6,068	2,841	3,153	12,062	2,094	2,832	16,988	17,408
Payroll services	876	1,593	662	3,131	186	665	3,982	4,112
Postage	934	688	90	1,712	1,439	5,107	8,258	28,157
Printing	190	200	56	446	3,691	17,871	22,008	13,552
Professional fees	350	113,992	1,665	116,007	20,116	-	136,123	87,255
Real estate taxes	-	7,691	-	7,691	-	-	7,691	12,826
Rent	32,045	12,017	95,532	139,594	9,345	13,352	162,291	152,990
Repairs and maintenance	28	6,602	9,849	16,479	9	13	16,501	6,353
Security	-	31,200	-	31,200	-	-	31,200	31,290
Site cleaning and disposal	-	8,268	12,176	20,444	-	-	20,444	9,669
Special events	114	-	-	114	-	31,668	31,782	32,079
Staff trainings	1,955	4,106	680	6,741	-	1,955	8,696	4,814
Tithe expenses	-	28,559	-	28,559	-	-	28,559	31,716
Truck expenses	-	4,577	17,498	22,075	-	-	22,075	31,172
Telephone and information technology	4,996	2,752	1,316	9,064	1,619	2,662	13,345	13,553
Travel	4,638	13,309	6,171	24,118	3,384	1,888	29,390	22,307
AmeriCorps program participants	-	1,815	3,967	5,782	-	-	5,782	12,837
Utilities	2,683	5,210	19,961	27,854	781	1,118	29,753	33,854
Total Functional Expenses	\$ 198,475	\$ 1,275,967	\$ 806,673	\$ 2,281,115	\$ 209,554	\$ 210,482	\$ 2,701,151	\$ 3,179,290

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

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Statement of Cash Flows

For the Year Ended June 30, 2015
With Comparative Totals for the Year Ended June 30, 2014

Cash Flows from Operating Activities	2015	2014
Change in Net Assets	\$ 81,131	\$ (115,463)
Adjustments to reconcile change in net assets to net cash provided by (used in)		
operating activities:		
Depreciation	37,404	39,312
Amortization	13,788	6,894
Investment in partnership	(9,678)	-
Donated construction costs	(72,245)	(66,608)
Imputed interest expense	234,204	(107,049)
Contribution restricted for long-term investment	(50,000)	-
Decrease (increase) in assets:		
Accounts receivable	(895)	-
Promises to give	(59,750)	120,051
Prepaid expenses and other current assets	14,922	4,144
Audit and tax fee reserve fund	8,145	-
Increase (decrease) in liabilities:		
Accounts payable and accrued expenses	(7,598)	11,044
Deposits and escrows	(4,603)	3,000
Agency accounts	(6,724)	5,684
Net Cash Provided by (Used in) Operating Activities	178,101	(98,991)
Cash Flows from Investing Activities		
Purchase of fixed assets	-	(52,944)
Payments of closing costs	-	(190,633)
Construction of housing and improvements	(493,245)	(2,272,975)
Proceeds from construction conveyance	58,912	221,332
Collection of mortgage notes receivable	345,085	372,448
Proceeds from land purchase deposit	8,000	-
Net Cash Used in Investing Activities	(81,248)	(1,922,772)
Cash Flows from Financing Activities		
Contributions restricted for long term investment	50,000	-
Repayments of notes payable	(122,804)	(222,952)
Proceeds from long term debt	-	2,767,920
Repayments on line of credit	(86,597)	-
Net Cash (Used in) Provided by Financing Activities	(159,401)	2,544,968
Net (Decrease) Increase in Cash and Cash Equivalents	(62,548)	523,205
Cash and Cash Equivalents - Beginning	1,257,622	734,417
Cash and Cash Equivalents - Ending	\$ 1,195,074	\$ 1,257,622
Supplemental Disclosure of Cash Flow Information		
Cash paid during the year for interest	\$ 56,612	\$ 56,333
Supplemental Data for Noncash Investing and Financing Activities		
Sale of housing and property financed with mortgage receivable	\$ 600,000	\$ 888,000

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies

The financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles (U.S. GAAP). The significant accounting policies followed by Habitat for Humanity Greater Boston, Inc. (the Organization) are described below to enhance the usefulness of the financial statements to the reader.

(a) Nature of Activities

The Organization is a charitable nonprofit Massachusetts corporation organized in December 1987. It is an affiliate of Habitat for Humanity International (HFHI), an organization with a grassroots structure which is dedicated to eliminating poverty housing from the earth and making poverty housing and homelessness socially and politically unacceptable in the world. The Organization's mission is to help low-income families become homeowners in the Greater Boston area using the Habitat model of volunteer labor, donated materials and charitable contributions to construct housing. Each Habitat family helps build their home by providing at least 300 hours of "sweat equity". When the home is complete, Habitat sells it to the family for an affordable price which is equal to or less than the final accumulated development cost and also provides the family with a no-interest mortgage loan. The Organization is responsible for raising funds for all of its projects, its annual operating budget and for "tithing" 10% of its unrestricted revenues to HFHI projects overseas.

The Organization's program divisions are as follows:

Family services expenses: The Family Service division interacts with applicants for the Habitat homeowner program and assists the Family Selection Committee with the family selection process. It also monitors the "sweat equity" program and conducts a series of education classes on topics relating to homeownership including budgeting, credit and financial management, condominium associations, home repairs and legal matters. Existing Habitat families with financial problems receive credit counseling and when appropriate, referrals to other social service programs. The Organization also helps families living in condominium associations communicate effectively with each other so they can manage the association's finances. In addition, the Organization promotes energy efficiency and monitors those Habitat projects where solar energy panels have been installed.

Construction and sale of Habitat Homes (Pre/post conveyance expenses): The Organization builds homes in partnership with low-income families, volunteers and donors. The division identifies and acquires land for projects, works with architects on the design and with lawyers on permitting and real estate documentation. It also obtains permits for projects and functions as a general contractor during construction, including procuring construction materials and managing subcontractors.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(a) Nature of Activities - continued

ReStore: In 2011, the Organization opened up the Habitat ReStore. The Habitat ReStore is a retail business that accepts donations of new and gently-used building materials, furniture, appliances, and housewares and resells them to the general public through a retail store front warehouse. The Habitat ReStores help to protect the environment by keeping hundreds of tons of material out of our landfills and in this tight economy they provide a low-cost outlet for home improvement materials making home renovations and improvements more affordable.

(b) Basis of Presentation

The statement of activities reports all changes in net assets, including changes in unrestricted net assets from operating activities and non-operating activities. Operating revenues consist of those monies received and other contributions attributable to the Organization's ongoing efforts. Realized and unrealized gains and losses on investments are reported as operating revenue, while disposal losses on property and equipment are reported as non-operating expenses.

(c) Standards of Accounting and Reporting

The Organization's net assets (excess of its assets over liabilities) and its revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

The statement of financial position presents three classes of net assets (unrestricted, temporarily restricted and permanently restricted) and the statement of activities displays the amounts of change in each of those classes of net assets. The classes of net assets applicable to the Organization are presented as follows:

Unrestricted - Net assets that are not subject to donor imposed restrictions. Unrestricted net assets consist of assets and contributions available for the support of operations. Unrestricted net assets may be designated for specific purposes by management or the Board of Directors.

Temporarily Restricted - Net assets subject to donor-imposed stipulations that may or will be met, either by actions of the Organization and/or passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restriction expires in the reporting period in which the contributions are recognized.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(d) Cash and Cash Equivalents

The Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

The Organization maintains cash balances at financial institutions located in Massachusetts. The cash balances are insured by the Federal Deposit Insurance Corporation. At times these balances may exceed the federal insurance limits; however, the Organization has not experienced any losses with respect to its bank balances in excess of government provided insurance. Management believes that no significant concentration of credit risk exists with respect to these cash balances as of June 30, 2015.

(e) Investment in Certificate of Deposit

The Organization carries investments in certificates of deposit with readily determinable values at their fair values on the statement of financial position. Certificates of deposit with original maturities greater than three months and remaining maturities less than one year are classified as current assets. Certificates of deposit with remaining maturities greater than one year are classified as long-term investments.

(f) Revenue Recognition

The Organization earns revenue as follows:

Contributions - Contributions are recorded upon receipt or pledge as unrestricted, temporarily restricted or permanently restricted support depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

Special Events - Special event revenue is primarily derived from contributions collected and fees charged for admission at various sponsored events. Special event contributions and fees are recognized as income when received. The majority of special event revenue is derived from one event, the American Dream Breakfast.

Sale of Property - the Organization recognizes revenue from property held for redevelopment/resale as properties are sold.

ReStore Sales - Retail store sales represent merchandise sales of building materials, furniture, appliances, and housewares donated to the Organization. Retail store revenues are recognized when the related goods are sold. The Organization records sales tax to retail stores revenue.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(f) Revenue Recognition - continued

The Organization derives substantially all of its revenue from its activities in Massachusetts. During the year ended June 30, 2015, the Organization derived approximately 62% of its total revenue from individuals, foundations and grants, 37% from corporations and sponsors, and 1% from other sources. All revenue is recorded at the estimated net realizable amounts.

(g) Promises to Give

Unconditional promises to give are recognized as revenue and as assets, net of allowances, in the period in which the promises are made. Conditional promises to give are recognized only when the conditions on which they depend are substantially met and when the promises become unconditional. Unconditional promises to give are recorded, in the year received, at the present value of estimated future cash flows using a risk adjusted discount rate. Amortization of the discount is included in contribution revenue.

Unconditional promises to give are periodically reviewed to estimate an allowance for doubtful accounts. Management estimates the allowance by review of historical experience and a specific review of collections trends that differ from scheduled collections on individual promises. As of June 30, 2015, management has determined any allowance would be immaterial.

(h) Mortgage and Notes Receivable

As described above, the Organization is a charity engaged in providing homeownership opportunities to low-income families living or working in the Greater Boston area. Upon completion of construction, the home is conveyed to a selected family for an affordable price which is equal to or less than the final accumulated development cost. The Organization takes back a non-interest bearing note for the purchase price and the note is secured by a first mortgage on the home. The Organization takes a second note, secured by a second mortgage, for the difference between the sale price of the home and its fair market value as determined by an independent appraisal. The Organization records the non-interest bearing note receivable at the present value of future payments under the note discounted using prevailing market rates. Mortgage and notes receivable are reported at their outstanding principal balances, net of the discount.

The Organization calculates allowances for uncollectible mortgage and notes receivable based on its previous loss experience. Individual loans are written off against the reserve when they are deemed uncollectible, and increases in the reserve are charged to loan loss reserve. In management's opinion, the collateral is sufficient to enable the Organization to realize the amounts due.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(h) *Mortgage and Notes Receivable - continued*

There were no loan losses recognized during the year ended June 30, 2015. As of June 30, 2015, management has determined any allowance would be immaterial.

(i) *Property and Equipment*

Property and equipment are recorded at cost or if donated, at fair value on the date of receipt. Depreciation is provided for in amounts sufficient to relate the cost of depreciable assets to operations over their estimated service lives. Improvements, including planned major maintenance activities are capitalized, while expenditures for routine maintenance and repairs are charged to expense as incurred. Upon disposal of depreciable property, the appropriate property accounts are reduced by the related costs and accumulated depreciation. The resulting gains and losses are reflected in the statement of activities.

The Organization computes depreciation using the straight-line method over the following estimated lives:

Leasehold improvements	7 years
Office equipment	5 years
Furniture and equipment	7 years
Vehicle	5 years

(j) *Property Held for Development*

Property held for development is recorded on the cost method. Costs associated with the acquisition, development and construction of property including property taxes, interest, insurance, and associated general and administrative costs are capitalized as a cost of the property, and are reported net of contingent liabilities. Property held for development consists of costs to develop homes for projects located in Massachusetts.

The Organization reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by the property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There were no impairment losses recognized in 2015.

As of June 30, 2015, the Organization had 6 properties held for development.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(k) Closing Costs and Fees

Closing costs and fees related to the new markets tax credit (NMTC) financing, as disclosed in Note 9, are recorded at cost and amortized over the respective life of the related agreements using the straight line method, which approximates the effective interest method for purposes of the closing costs and servicing fees, as follows.

Closing costs and servicing fees	\$ 122,756	360 months
HGHI guarantor fee	164,654	84 months
Audit and tax fee reserve fund	57,017	84 months

Amortization expense amounted to \$13,788 for the year ended June 30, 2015. Future amortization expense for financing and other fees owned at June 30, 2015 approximates \$13,800 for each of the next five years.

(l) Investment in Partnership

Investments in partnerships or similar entities in which the Organization does not have a controlling financial interest are accounted for as equity method investments.

As of June 30, 2015, the Organization has an investment in NFH Northeast 1 Leverage Lender, LLC (the LLC) which is accounted for under the equity method. Under the equity method, the investment is carried at cost and adjusted for the Organization's share of income, losses, additional investments and cash distributions from the limited liability company. As a member of the LLC, the Organization ceases recognition of losses for financial statement purposes once the cost of the investment is reduced to zero.

Declines in the fair value of the Organization's investment in the LLC below their varying value that are deemed to be other than temporary are reflected in the statements of operations as impairment loss. In estimating other than temporary impairment losses, management considers many factors which include: the length of time and the extent to which the fair value has been less than carrying value, the financial condition of the LLC and the intent and ability of the Organization to retain its investment in the LLC for a period of time sufficient to allow for any anticipated recovery in fair value as calculated based primarily on remaining tax benefits. There were no impairment losses recognized during the year ended June 30, 2015.

(m) Fair Value Measurements

U.S. GAAP defines fair value as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants at the measurement date. Additionally, the inputs used to measure fair value are prioritized based on a three-level hierarchy. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(m) Fair Value Measurements - continued

The three levels used to measure fair value are as follows:

Level 1: Quoted prices for identical instruments traded in active markets.

Level 2: Observable inputs other than quoted prices included in Level 1. Assets and liabilities included in this level are valued using quoted prices for similar assets and liabilities in active markets or other inputs that are observable or can be corroborated by observable market data.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. This includes certain pricing models, discounted cash flow methodologies and similar techniques that use significant unobservable inputs.

Recurring Measurements

U.S. GAAP requires that certain assets and liabilities be recorded at fair value on a recurring basis. The Organization had no assets or liabilities that were recognized or disclosed at fair value on a recurring basis under the above fair value hierarchy as of June 30, 2015. The Organization's policy is to recognize transfers in and out of levels as of the actual date of the event or change in circumstances that caused the transfer. There were no transfers between levels during the year ended June 30, 2015.

Nonrecurring Measurements

In addition to assets and liabilities that are recorded at fair value on a recurring basis, the Organization records assets and liabilities at fair value on a nonrecurring basis as required by U.S. GAAP. The following table presents the fair value hierarchy for those assets measured at fair value on a nonrecurring basis as of June 30, 2015. The Organization had no liabilities that were recognized or disclosed at fair value on a nonrecurring basis under the above fair value hierarchy as of June 30, 2015.

The following table presents the fair value hierarchy for those financial and nonfinancial assets measured at fair value on a nonrecurring basis as of June 30, 2015.

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Notes receivable	\$ _____ -	\$ <u>239,752</u>	_____ -	\$ <u>239,752</u>

Notes receivable additions were valued under a discounted cash flow approach using an interest rate of 7%; the market rate at the time of conveyance.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(n) Income Taxes

The Organization qualifies as an organization formed for charitable purposes under Section 501(c)(3) of the Internal Revenue Code (IRC) and therefore is not subject to income tax. The Organization is not a private foundation under Section 509(a)(1). Certain unrelated business income, as defined in the IRC, is subject to federal income tax. For the year ended June 30, 2015, there was no liability for tax on unrelated business income.

U.S. GAAP prescribes a recognition threshold and measurement attribute for financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. For the year ended June 30, 2015, the Organization has determined that it has not taken any tax positions which would result in an uncertainty requiring recognition in the accompanying financial statements. The Organization recognizes interest and penalties, if any, related to unrecognized tax benefits in interest expense. There were no interest or penalties for the year ended June 30, 2015.

Generally, the Organization's information returns remain open for possible federal income tax examination for three years after the filing date. The Organization is not currently under examination by any taxing jurisdiction.

(o) Fundraising

Fundraising relates to the activities of raising general and specific contributions to the Organization.

(p) Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Directly identifiable expenses are charged to programs and supporting services. Expenses related to more than one function are allocated to programs and supporting services directly or on the basis of time records and utilization estimates made by the Organization's management. Administration expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(q) Special Events

The Organization has determined that special events are incidental to its operations and therefore the direct costs of benefit to the donors is reported with fundraising expense and is not included with special events revenue.

(r) Use of Estimates

In preparing the Organization's financial statements in conformity with U.S. GAAP, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

(s) Contributed Services and Gifts in Kind

Donated materials are reported as contributions in the financial statements at their estimated fair values at the time of receipt. Donated services are similarly reported when services are performed which would otherwise have been purchased or performed by Organization personnel.

In-kind contributed goods and services were recorded as follows:

Professional fees (non-capital)	\$ 144,836
Professional fees (capital)	72,245
Donated goods - ReStore	<u>405,486</u>
	\$ <u>622,567</u>

Many individuals volunteer their time and perform a variety of tasks that assist the Organization with specific services related to the construction and development of the properties. However, the Organization determined it was not practical to quantify the value of these commercial services.

(t) Compensated Absences

Vacation and sick pay are considered expenditures in the year paid. The Organization has not accrued compensated absences because the amount cannot be reasonably estimated.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(1) Summary of Significant Accounting Policies - continued

(u) Summarized Financial Information for 2014

The financial statements include certain prior year summarized comparative information in total but not by net asset class. Also, the financial statements do not include a full presentation of the statements of activity and functional expenses, as certain prior year summarized comparative information is presented in total but not by functional classification. In addition, the financial statements do not include full financial statement disclosures for the prior year. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

(v) Inventory

The Organization believes that the inventory of donated goods and materials does not possess an attribute that is easily measurable or verifiable with sufficient reliability to determine inventory value at the time of donation. Accordingly donated goods and material and the related cost of goods sold are recorded at the time of sale.

(2) Promises to Give

The Organization has received unconditional promises to give related to fundraising events. Unconditional promises to give that are expected to be collected within one year are recorded at net realizable value. Unconditional promises to give that are expected to be received more than a year after June 30, 2015 are recorded at the present value of their future cash flows using a risk-adjusted discount rate.

As of June 30, 2015, all promises to give were expected to be received in one year and any allowance or discount is expected to be immaterial and has not been recorded.

(3) Note Receivable

The Organization has a note receivable from an individual purchasing the commercial unit at Blue Hill Place in the original amount of \$177,267. The note is secured by a mortgage, assignment of leases and rents and security agreement. The note requires monthly payments plus interest adjusted annually each July with a balloon payment for the outstanding balance due July 2015. As of June 30, 2015, the interest rate was 9% and the note receivable balance due totaled \$164,134.

As of the date of the auditors' report, the note receivable balance remains outstanding. In management's opinion, the collateral is sufficient to enable the Organization to realize the amount due. The note receivable has been classified as long-term on the accompanying statement of financial position.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(4) Mortgage Notes Receivable

At conveyance of a unit to a homeowner, the Organization receives a non-interest bearing 20 to 35-year mortgage note. The amount reported in the statement of financial position is net of imputed interest. The rate used to calculate the imputed interest is the market rate at the time of conveyance (currently 7%). As of June 30, 2015, the Organization has 74 outstanding notes receivable outstanding with balances ranging from \$264 to \$226,521.

The following is a summary of the mortgages receivable as of June 30, 2015:

Total unpaid balance	\$ 6,560,627
Imputed interest	<u>479,148</u>
Net present value of mortgage notes	<u>7,039,775</u>
Current portion	394,294
Long-term portion	<u>6,645,481</u>
Total	<u>\$ 7,039,775</u>

Estimated principal payments for the next five years are as follows:

2016	\$ 394,294
2017	373,693
2018	369,305
2019	363,293
2020	345,403
Thereafter	5,193,787

(5) Restricted Deposits and Funded Reserves

In accordance with the note payable to Habitat for Humanity International (FlexCap), the Organization is required to maintain a reserve balance equal to the quarterly payment of interest and principal due under the note payable agreement. As of June 30, 2015, the balance was \$13,720.

In accordance with the loan and security agreement with Citi NMTC CDE XVI, LLC (CDE), the Organization is required to pay to the lender an annual audit and tax expense fee. The reserve was funded at the time of the NMTC financing closing and additional deposits are not required. During the year ended June 30, 2015, fees of \$4,072 were paid and as of June 30, 2015, the balance was \$22,399 and included in audit and tax fee reserve fund on the accompanying statement of financial position.

Similarly, a separate reserve was established to fund the annual audit and tax expense fee of the HFH NMTC Investment Fund, LLC (HFH NMTC). HFH NMTC has a 99.99% interest in CDE. The reserve was funded at the time of the NMTC financing closing and additional deposits are not required. During the year ended June 30, 2015, fees of \$4,073 were paid and as of June 30, 2015, the balance was \$22,400 and included in audit and tax fee reserve fund on the accompanying statement of financial position.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(6) Debt

(a) Line of Credit

The Organization has available a line of credit with Dedham Institute for Savings for the development of Arrowhead Project in the amount of \$500,000 to be drawn upon as needed. The line of credit bears interest at 3% per annum. The line is secured by the Organization's general business assets. During the year ended June 30, 2015 borrowings and repayments on the line of credit amounted to zero and \$86,597, respectively. During the year ended June 30, 2015, interest expense amounted to \$5,621. As of June 30, 2015, the balance outstanding was \$194,029.

(b) Mortgage and Notes Payable

The Organization has a FlexCap note payable to HFHI, in the original amount of \$335,200. The loan pool to affiliates is secured by collateral assignments of mortgages on eight mortgage loans receivable dated June 23, 2011 and amended December 12, 2013. The note bears interest at 3.8% per annum through December 2018, the maturity date, and is payable in quarterly payments of \$13,691. During the year ended June 30, 2015, interest expense amounted to \$11,458. As of June 30, 2015, the principal balance due amounted to \$270,783.

The Organization has a note payable to MassHousing in the original amount of \$300,000. The note is secured by five property loans conveyed to buyers. The note bears interest at 2.5% per annum and requires monthly payments of principal and interest in the amount of \$2,000. The note matures in 2016. During the year ended June 30, 2015, interest expense amounted to \$1,215. As of June 30, 2015, the principal balance due amounted to \$31,449.

The Organization has a note payable to MassHousing in the original amount of \$600,000. The note is secured by five property loans conveyed to buyers. The note bears interest at 2.5% per annum and requires monthly payments of principal and interest in the amount of \$4,471. The note matures in May 2023. During the year ended June 30, 2015, interest expense amounted to \$10,903. As of June 30, 2015, the principal balance due amounted to \$377,712.

The Organization had a non-interest bearing note payable to Lawrence Model Lodging Houses Trust, in the original amount of \$7,500. The note was due upon the sale of 31 Ashton Street or within three years. The note was paid in full during the year ended June 30, 2015.

The Organization has a note payable to CDE as part of the NMTC structure described in Note 9, in the original amount of \$2,660,790. The note is secured by collateral assignments of various accounts established as part of the NMTC structure. The note bears interest at 1.03% per annum and requires interest only payments through November 2020. Commencing November 2021, the note is payable in semi-annual payments of \$65,111 through the maturity date, December 2043. Debt covenants on the note include maintaining a debt to asset ratio, not to exceed 95%. During the year ended June 30, 2015, interest expense amounted to \$27,398. As of June 30, 2015, the principal balance due amounted to \$2,660,790.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(6) Debt - continued

Principal payments due over the next five years are as follows:

2016	\$ 239,511
2017	164,654
2018	95,579
2019	98,640
2020	101,805
Thereafter	2,834,574

(7) Operating Lease Commitments

The Organization occupies office space under a non-cancelable, operating lease agreement with monthly rent of \$5,600. The Organization is also liable for its proportionate share of operating costs and real estate taxes. This lease agreement expires in January, 2020.

The Organization leases additional space of approximately 12,700 square feet as the lessor under a non-cancelable, operating lease agreement. The lease has an escalation clause and expires in July 2017.

Rent expense for the year ended June 30, 2015 was \$162,291.

As of June 30, 2015, future minimum lease payments are as follows:

2016	\$ 72,506
2017	67,200
2018	67,200
2019	67,200
2020	39,200

(8) Housing Activities

The following provides a summary of the Organization's construction and housing activities:

<u>Housing Units</u>	
Units conveyed, subject to mortgage loans serviced by bank	72
Units under renovation	1
Housing units under construction	<u>8</u>
Total	<u>81</u>

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(9) NMTC Financing

During 2014, the Organization embarked on a series of transactions with Citibank, HFHI, Habitat for Humanity of Costal Fairfield County, Inc. (HFHCFC) and Patterson Habitat for Humanity Inc. (PHFH) to effectuate a NMTC structure to assist the construction of Habitat homes in certain low-income neighborhoods. NMTC allow for larger net proceeds than would otherwise be available under classic financing.

The Organization, HFHCFC and PHFH each invested in the LLC to leverage the capital contribution of the investor into a new entity set up for this purpose. The LLC then invested in the CDE. The CDE received allocations of NMTC pursuant to Section 45D of the IRC in order to assist eligible businesses in making investments in certain low-income communities. The Organization's investment in the LLC effectively avails itself of \$2,454,146 in funds net of fees and transaction costs for the construction of Habitat homes in certain Boston neighborhoods.

As of June 30, 2015, the membership interests in the LLC are owned .01% by Habitat NMTC LLC (Habitat NMTC) (managing member), 44.70% by PHFH, 33.93% by the Organization and 21.36% by HFHCFC.

As part of the NMTC transactions, the Organization received cash in the amount of \$538,771 which must be spent within twelve months on construction costs for the NMTC properties, all of which was spent as of June 30, 2015.

On December 31, 2020, Citibank has a right and option, but not an obligation, for a period of six months, to require Habitat NMTC to purchase all the investor's interest for an exercise price of \$1,000. If the put is not exercised, then Habitat NMTC has the right to purchase the investor's interest for fair market value, as determined by an independent appraiser. Habitat NMTC is wholly owned by HFHI.

The value of the investment as of June 30, 2015 amounted to \$1,925,054. The condensed unaudited financial statements of the LLC as of June 30, 2015 are as follows:

Assets	
Current assets	\$ 726
Mortgage loans receivable	<u>5,672,000</u>
Total Assets	\$ <u>5,672,726</u>
Liabilities and Members' Equity	
Current liabilities	\$ -
Noncurrent liabilities	-
Members' equity	<u>5,672,726</u>
Total Liabilities and Members' Equity	\$ <u>5,672,726</u>
Revenue	\$ 56,720
Operating expenses	<u>-</u>
Net Income (Loss)	\$ <u>56,720</u>

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(10) Related Party Transactions

(a) HFHI

The Organization is responsible for tithing 10% of its unrestricted revenues to HFHI for overseas projects. Tithe expense for the year ended June 30, 2015 was \$28,559.

HFHI entered into a tax credit and indemnity agreement dated December 30, 2013 with Citibank, N.A. HFHI has guaranteed the delivery of the NMTC and the achievement of an annual internal rate of return of 8.79%. In addition, HFHI has entered into a servicing agreement with Citi NMTC Subsidiary CDE XVI, LLC dated December 30, 2013. In connection with these agreements, the Organization prepaid the service fee due to HFHI. For the year ending June 30, 2015 \$5,818 was incurred.

As described in Note 6, the Organization has a note payable to HFHI. As of June 30, 2015, the principal balance due amounted to \$270,783.

(b) Other

During the year ended June 30, 2015, the Organization received \$60,000 from a Habitat affiliate for development projects which is included in contributions and grants on the accompanying statement of activities.

(11) Temporarily Restricted Net Assets

Temporarily restricted net assets consist of resources available to meet future obligations, but only in compliance with the restrictions specified by donors. As of June 30, 2015, temporarily restricted net assets are restricted for the following purpose:

Pope House	\$ 50,000
Time restrictions	<u>67,628</u>
	\$ <u>117,628</u>

(12) Tax Deferred Annuity Plan

The Organization maintains a tax-deferred annuity plan qualified under Section 403(b) of the IRC. The plan covers any employees electing to participate and is entirely funded with employee contributions up to the maximum amount allowed by the IRC. During the year ended June 30, 2015, expenses incurred in connection with the plan were immaterial.

HABITAT FOR HUMANITY GREATER BOSTON, INC.

Notes to Financial Statements

June 30, 2015

(13) Reclassification of Investment in Certificate of Deposit

In the prior year, the Organization's investment in a certificate of deposit was included with cash and cash equivalents. The prior year amount has been reclassified to other assets to conform to the current year presentation. Accordingly the cash and cash equivalents balance as of June 30, 2014, has decreased from \$1,262,797 to \$1,257,622.

(14) Option Agreement

The Organization (seller) has entered into an agreement with an unrelated third party (buyer) wherein for a fee, the buyer is granted the exclusive and irrevocable right to purchase land located at 307 Blue Hill Avenue. During the year ended June 30, 2015, the buyer paid a land purchase deposit of \$8,000. Subsequent year end on September 30, 2015, the buyer purchased the land for \$175,000.

(15) Subsequent Events

The Organization has performed an evaluation of subsequent events through June 7, 2016, which is the date the Organization's financial statements were available to be issued. No material subsequent events, other than noted above, have occurred since June 30, 2015 that required recognition or disclosure in these financial statements.