Habitat for Humanity of Metro Denver

Consolidated Financial Statements
and
Independent Accountants' Review Report
December 31, 2015 and 2014

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HABITAT FOR HUMANITY OF METRO DENVER, INC.

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INDEPENDENT ACCOUNTANTS' REVIEW REPORT

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.
Denver, Colorado

We have reviewed the accompanying consolidated financial statements of Habitat for Humanity of Metro Denver, Inc. ("Habitat") (a Colorado non-profit corporation), which are comprised of the consolidated statements of financial position as of December 31, 2015, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements. A review includes primarily applying analytical procedures to management's financial data and making inquiries of Habitat management. A review is substantially less in scope than an audit, the objective of which is the expression of an opinion regarding the consolidated financial statements as a whole. Accordingly, we do not express such an opinion.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

ACCOUNTANTS' RESPONSIBILITY

Our responsibility is to conduct the review engagement in accordance with *Statements on Standards for Accounting and Review Services* promulgated by the Accounting and Review Services Committee of the AICPA. Those standards require us to perform procedures to obtain limited assurance as a basis for reporting whether we are aware of any material modifications that should be made to the consolidated financial statements for them to be in accordance with accounting principles generally accepted in the United States of America. We believe that the results of our procedures provide a reasonable basis for our conclusion.

Based on our review, we are not aware of any material modifications that should be made to the accompanying consolidated financial statements in order for them to be in conformity with generally accepted accounting principles.

PRIOR YEAR CONSOLIDATED FINANCIAL STATEMENTS

The 2014 consolidated financial statements were audited by us, and we expressed an unmodified opinion on them in our report dated April 22, 2015, but we have not performed any auditing procedures since that date.

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April 20, 2016
Denver, Colorado

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Financial Position
(See Independent Accountants' Review Report)

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Assets		
Assets		
Cash and cash equivalents	$ 3,146,406	$ 3,134,720
Investments held by The Denver Foundation (Notes 2 and 3)	5,407,521	2,362,228
Escrow deposits held in trust	210,880	162,489
Grants receivable	385,183	-
Construction in progress (Note 4)	4,409,053	4,342,455
Other assets	811,644	669,431
Mortgage notes receivable, net (Note 5)	13,896,344	16,048,493
Investment in HFHI-SA Leverage IX, LLC (Note 11)	3,948,792	3,883,876
Investment in CCML Leverage Lender I, LLC (Note 12)	1,539,422	1,514,731
Property and equipment, net (Note 6)	3,154,006	3,099,420
Deferred loan costs	201,215	243,622
Total assets	$ 37,110,466	$ 35,461,465
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 409,177	$ 115,591
Other accrued expenses	396,162	492,265
Homeowner deposits	14,535	8,224
Deferred rent	159,128	137,160
Escrow deposits held in trust	210,880	162,489
Mortgage note payable (Note 8)	1,309,774	1,370,543
Notes payable (Note 9)	981,793	1,265,569
Notes payable HFHI (Note 10)	212,749	192,671
Note payable HFHI-SA NMTC VI, LLC (Note 11)	4,858,200	4,858,200
Note payable CCM Community Development XVII, LLC (Note 12)	1,880,000	1,880,000
Forgivable notes payable (Note 13)	2,632,100	5,062,350
Total liabilities	13,064,498	15,545,062
Commitments and contingencies (Notes 7, 15, 17, and 18)		
Net assets (Note 14)		
Unrestricted		
Board-designated for land and infrastructure	2,000,000	2,000,000
Undesignated	20,487,036	17,201,694
Total unrestricted	22,487,036	19,201,694
Temporarily restricted	1,558,932	714,709
Total net assets	24,045,968	19,916,403
Total liabilities and net assets	$ 37,110,466	$ 35,461,465

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Activities
(See Independent Accountants' Review Report)

	For the Years Ended					
	December 31, 2015 (Reviewed)			December 31, 2014 (Audited)		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support						
Contributions and grants	$ 3,616,750	$ 1,240,187	$ 4,856,937	$ 3,743,215	$ 614,709	$ 4,357,924
Donated goods and services	1,449,318	-	1,449,318	1,554,846	-	1,554,846
Home sales	1,685,582	-	1,685,582	2,940,445	-	2,940,445
Mortgage interest income	775,999	-	775,999	720,241	-	720,241
Discount earned on the sale of receivables	2,540,663	-	2,540,663	708,475	-	708,475
Sales from ReStores, net of cost of purchased inventory of $(350,843) (2015) and $(275,779) (2014)	4,846,616	-	4,846,616	3,932,166	-	3,932,166
Other income	50,479	-	50,479	77,079	-	77,079
Net assets released from restrictions due to satisfaction of expenditure requirements	395,964	(395,964)	-	689,308	(689,308)	-
Forgiveness of debt	2,430,250	-	2,430,250	-	-	-
Total revenues, gains, and support	17,791,621	844,223	18,635,844	14,365,775	(74,599)	14,291,176
Expenses						
Program services						
Home construction	8,113,239	-	8,113,239	9,199,887	-	9,199,887
Family services	879,710	-	879,710	481,976	-	481,976
ReStores	3,870,214	-	3,870,214	2,977,652	-	2,977,652
Total program services	12,863,163	-	12,863,163	12,659,515	-	12,659,515
Supporting services						
Management and general	672,968	-	672,968	774,030	-	774,030
Fundraising activities	967,297	-	967,297	990,837	-	990,837
Total supporting services	1,640,265	-	1,640,265	1,764,867	-	1,764,867
Total expenses	14,503,428	-	14,503,428	14,424,382	-	14,424,382
Change in net assets before other income	3,288,193	844,223	4,132,416	(58,607)	(74,599)	(133,206)
(Loss) gain on sale of asset	(800)	-	(800)	3,472	-	3,472
Investment (loss) income	(2,051)	-	(2,051)	278,597	-	278,597
Change in net assets	3,285,342	844,223	4,129,565	223,462	(74,599)	148,863
Net assets at beginning of year	19,201,694	714,709	19,916,403	18,978,232	789,308	19,767,540
Net assets at end of year	$ 22,487,036	$ 1,558,932	$ 24,045,968	$ 19,201,694	$ 714,709	$ 19,916,403

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2015 (Reviewed)
(See Independent Accountants' Review Report)

	Program Services				Supporting Services			
	Home Construction	Family Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Supporting Services	Total Functional Expenses
Expenses								
Cost of homes sold	$ 4,991,749	$ -	$ -	$ 4,991,749	$ -	$ -	$ -	$ 4,991,749
Salaries and wages	1,093,863	429,467	1,802,458	3,325,788	257,889	553,088	810,977	4,136,765
Volunteer labor on homes	869,806	-	-	869,806	-	-	-	869,806
Occupancy	25,878	11,993	693,048	730,919	23,140	14,077	37,217	768,136
Payroll taxes and benefits	194,492	72,036	451,431	717,959	39,677	101,323	141,000	858,959
Habitat for Humanity International tithe	204,234	-	-	204,234	-	-	-	204,234
Depreciation and amortization	116,161	25,879	47,770	189,810	34,488	30,863	65,351	255,161
Professional fees	14,038	226,283	32,828	273,149	119,176	11,592	130,768	403,917
Bank and investment fees	-	-	79,047	79,047	69,372	7,724	77,096	156,143
Insurance	99,285	17,081	119,993	236,359	11,484	11,095	22,579	258,938
Other construction costs	104,221	46,954	-	151,175	-	-	-	151,175
Marketing and communications	15,769	1,084	218,659	235,512	-	165,549	165,549	401,061
Office supplies	28,546	8,706	170,167	207,419	19,113	14,874	33,987	241,406
Vehicle expense	37,446	-	131,523	168,969	-	-	-	168,969
Interest expense	79,840	8,169	-	88,009	15,028	13,593	28,621	116,630
Volunteer expense	104,474	3,329	2,011	109,814	249	10,165	10,414	120,228
Telephone	14,532	3,012	44,348	61,892	3,112	2,572	5,684	67,576
Printing and postage	10,995	8,004	16,780	35,779	5,902	18,002	23,904	59,683
Miscellaneous	47	3,047	-	3,094	12,400	152	12,552	15,646
Administrative fees	57,930	530	2,704	61,164	40,406	175	40,581	101,745
Equipment purchase and repair expense	32,002	-	28,410	60,412	-	-	-	60,412
Staff development	9,457	6,396	12,350	28,203	11,784	3,443	15,227	43,430
Travel and transportation	8,474	7,740	16,687	32,901	9,748	9,010	18,758	51,659
Total expenses	$ 8,113,239	$ 879,710	$ 3,870,214	$ 12,863,163	$ 672,968	$ 967,297	$ 1,640,265	$ 14,503,428

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2014 (Audited)
(See Independent Accountants' Review Report)

	Program Services				Supporting Services			
	Home Construction	Family Services	ReStores	Total Program Services	Management and General	Fundraising Activities	Total Supporting Services	Total Functional Expenses
Expenses								
Cost of homes sold	$ 6,080,664	$ -	$ -	$ 6,080,664	$ -	$ -	$ -	$ 6,080,664
Salaries and wages	1,077,937	252,617	1,419,521	2,750,075	231,931	556,138	788,069	3,538,144
Volunteer labor on homes	839,175	-	-	839,175	-	-	-	839,175
Occupancy	24,197	13,714	569,365	607,276	21,545	13,301	34,846	642,122
Payroll taxes and benefits	189,536	38,007	301,026	528,569	65,204	84,546	149,750	678,319
Habitat for Humanity International tithe	192,152	-	-	192,152	-	-	-	192,152
Depreciation and amortization	104,722	28,808	22,973	156,503	44,579	27,906	72,485	228,988
Professional fees	43,927	52,954	24,779	121,660	226,661	17,402	244,063	365,723
Bank and investment fees	2	5	63,252	63,259	35,052	9,126	44,178	107,437
Insurance	123,554	6,825	128,498	258,877	20,435	17,373	37,808	296,685
Other construction costs	131,246	38,982	-	170,228	3,214	-	3,214	173,442
Marketing and communications	-	945	146,217	147,162	-	170,352	170,352	317,514
Office supplies	17,325	5,551	81,735	104,611	19,066	17,563	36,629	141,240
Vehicle expense	42,385	-	121,604	163,989	-	-	-	163,989
Interest expense	72,435	13,529	-	85,964	23,805	13,033	36,838	122,802
Volunteer expense	134,691	11,833	7,726	154,250	603	32,047	32,650	186,900
Telephone	12,848	3,763	23,388	39,999	9,981	4,296	14,277	54,276
Printing and postage	9,161	4,614	9,526	23,301	8,080	7,356	15,436	38,737
Miscellaneous	114	4,096	-	4,210	1,739	90	1,829	6,039
Administrative fees	59,857	-	467	60,324	40,866	-	40,866	101,190
Equipment purchase and repair expense	30,394	-	32,586	62,980	6	-	6	62,986
Staff development	7,780	5,296	11,330	24,406	13,810	12,564	26,374	50,780
Travel and transportation	5,785	437	13,659	19,881	7,453	7,744	15,197	35,078
Total expenses	$ 9,199,887	$ 481,976	$ 2,977,652	$ 12,659,515	$ 774,030	$ 990,837	$ 1,764,867	$ 14,424,382

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(See Independent Accountants' Review Report)

	For the Years Ended December 31,	
	2015 (Reviewed)	2014 (Audited)
Cash flows from operating activities		
Change in net assets	$ 4,129,565	$ 148,863
Adjustments to reconcile change in net assets to net cash used in operating activities		
Mortgages made to homeowners	(1,685,582)	(2,940,445)
Discount earned on sale of mortgage receivables	(2,540,663)	(708,475)
Amortization of mortgage loan discounts	(775,999)	(720,241)
Depreciation and amortization expense	212,754	186,583
Amortization of New Market Tax Credit loan costs	42,407	42,405
Loss on sale of assets	800	34,689
Deferred rent	21,968	34,971
Net realized and unrealized loss (gain) on investments	142,865	(137,783)
Income from equity method investments	(140,813)	(140,814)
Forgiveness of debt	(2,430,250)	(137,500)
Changes in assets and liabilities		
Grants receivable	(385,183)	398,926
Construction in progress	(66,598)	1,503,270
Other assets	(142,213)	86,012
Distributions received from New Market Tax Credit investments	51,206	51,207
Accounts payable	293,586	(141,395)
Other accrued expenses	(96,103)	240,198
Homeowner deposits	6,311	(3,939)
	(7,491,507)	(2,352,331)
Net cash used in operating activities	(3,361,942)	(2,203,468)
Cash flows from investing activities		
Mortgage principal payments received	1,540,285	1,640,919
Proceeds from sale of mortgages	5,614,108	1,032,467
Purchases of investments held by The Denver Foundation	(4,000,000)	-
Proceeds from sale of investments held by The Denver Foundation	750,000	-
Distributions for fees paid to The Denver Foundation	61,842	28,811
Payments for purchases of equipment	(269,440)	(85,594)
Proceeds from sale of equipment and land	1,300	3,472
Net cash provided by investing activities	3,698,095	2,620,075
Cash flows from financing activities		
Repayments of mortgage note payable	(60,769)	(57,521)
Repayments of notes payable	(283,776)	(240,898)
Repayments of notes payable HFHI	(51,218)	(51,084)
Proceeds from notes payable	-	1,032,467
Proceeds from notes payable HFHI	71,296	116,936
Net cash (used in) provided by financing activities	(324,467)	799,900
Net increase in cash and cash equivalents	11,686	1,216,507
Cash and cash equivalents at beginning of year	3,134,720	1,918,213
Cash and cash equivalents at end of year	$ 3,146,406	$ 3,134,720

(Continued on the following page)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows
(See Independent Accountants' Review Report)

(Continued from the previous page)

Supplemental disclosure of cash flow information:

Interest paid was $56,880 and $63,050 for the years ended December 31, 2015 (reviewed) and 2014 (audited), respectively.

Supplemental disclosure of non-cash activity:

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Issuance of non-interest-bearing mortgage loans	$ 4,861,510	$ 5,472,270
Discount on non-interest-bearing mortgage loans	(3,175,928)	(2,531,825)
Transfers to homeowners subject to non-interest-bearing mortgage loans	$ 1,685,582	$ 2,940,445

See notes to consolidated financial statements.

Notes to Consolidated Financial Statements
(See Independent Accountants' Review Report)

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Habitat for Humanity of Metro Denver, Inc. ("Habitat") is a non-profit corporation formed on April 20, 1979 to raise funds to build, rehabilitate, and repair affordable housing for low-income individuals who presently live in inadequate housing or cannot purchase housing through conventional sources. To qualify for housing, applicants must demonstrate need for housing, ability to pay for the services, and willingness to partner with Habitat for Humanity. All Habitat partner families complete sweat equity, attend homeowner education classes, and pay for their home or repairs. Financing for individuals purchasing homes is provided by Habitat utilizing zero interest rate financing and monthly payments meet HUD's affordability standards.

Habitat operates five Home Improvement Outlets (the "ReStores") to provide the community with a source of low-cost materials for home improvement, to reduce the volume of materials going to landfills, and to generate funds for Habitat. Many Habitat homeowners volunteer at the ReStores to earn sweat equity hours and work experience.

Habitat is an affiliate of Habitat for Humanity International ("Habitat International" or "HFHI").

Habitat Community Housing Development, Inc. ("HCHD") is a separately incorporated non-profit corporation, formed for the purpose of obtaining certain federal funds set aside for community housing development organizations that will be used by Habitat for the construction of affordable homes for low-income families. Habitat is the sole member of HCHD.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Habitat and HCHD, collectively referred to as "Habitat." All significant interorganization balances and transactions have been eliminated.

Basis of Presentation

The accompanying consolidated financial statements of Habitat have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

> Unrestricted amounts are those currently available at the discretion of the Board of Directors ("Board") for use in Habitat's operations. Unrestricted amounts also include monies designated by the Board for a reserve fund for future land purchases and infrastructure development.
>
> Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Permanently restricted amounts are assets that must be maintained permanently by Habitat as required by the donor, but Habitat is permitted to use or expend part or all of any income derived from those assets. Habitat does not currently maintain any permanently restricted net assets.

Cash and Cash Equivalents

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

Investments

Investments held by The Denver Foundation (the "Foundation") are stated at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the consolidated statements of activities.

In accordance with generally accepted accounting principles, non-controlling interests in HFHI-SA Leverage IX, LLC (Note 11) and CCML Leverage Lender I, LLC (Note 12) are accounted for under the equity method of accounting.

Habitat evaluates these investments annually for other-than-temporary declines in value. At December 31, 2015 (reviewed) and 2014 (audited), no such declines existed on these investments.

Concentrations of Credit Risk

Financial instruments, which potentially subject Habitat to concentrations of credit risk, consist of cash accounts that may, during the year, exceed the federally insured limit set by the FDIC, investments held by the Foundation, and mortgage notes receivable. Interest-bearing and non-interest-bearing accounts are guaranteed by the FDIC up to $250,000. At December 31, 2015 (reviewed) and 2014 (audited), Habitat had deposits in excess of federally insured limits of approximately $2,640,000 and $2,540,000, respectively. Habitat reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

Habitat finances the construction and ownership of homes to low-income individuals in the Denver Metro area. The mortgages are secured by a deed of trust. Habitat has established procedures to limit the risk of default by limiting the sales prices of the homes and not charging interest, thereby designing the monthly mortgage payments of the owners to be manageable. Habitat homes are appraised for value prior to sale, with the sale price being set at appraised (or fair market) value. Habitat may utilize a subordinate second mortgage to bring the first mortgage down to an affordable level based on a specific family’s financial situation. However, the values of homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of management.

Credit risk with respect to contributions receivable is limited due to the number and creditworthiness of the corporations, foundations, churches, and individuals that comprise the contributor base.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Escrow Deposits Held in Trust

Habitat services the mortgages on the homes it sells. Certain mortgages are subsequently sold to third parties, one of which services the loans it holds, and the other group of loans continue to be serviced by Habitat. Escrow deposits held in trust include amounts received for insurance, property taxes, and other fees on such loans that Habitat services.

Property and Equipment

Property and equipment are recorded at cost or, if donated, at fair value at the date of donation. Habitat capitalizes all property and equipment with a cost or donated value in excess of $5,000 and with an estimated useful life of three years or more. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 30 years, and related lease terms for leasehold improvements.

Deferred Loan Costs

During 2012 and 2011, Habitat capitalized the costs associated with obtaining the New Market Tax Credit ("NMTC") loans. These deferred loan costs are being amortized over the life of the related notes payable using a method approximating the effective interest method. Amortization of deferred loan costs is included in amortization expense in the accompanying consolidated statements of functional expenses. Amortization expense for the years ended December 31, 2015 (reviewed) and 2014 (audited) was $42,407 and $42,405, respectively.

Deferred Rent

Habitat recognizes rent expense on a straight-line basis over the term of the lease. Deferred rent reflects the accumulated difference between actual rent payments and expense recognized.

Donated Services and Goods

Donated services are recognized as contributions at estimated fair value on the date of receipt if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat.

In 2015, Habitat estimated the cost of volunteer labor to be approximately $22,800 for a single-family home, between $22,800 and $26,500 for a duplex unit, and between $34,100 and $37,900 for a townhome. In 2014, Habitat estimated the cost of volunteer labor to be approximately $23,200 for a single-family home, $30,700 for a duplex unit, and between $25,800 and $32,800 for a townhome. These volunteer costs are recognized as contribution revenue and cost of homes sold in the consolidated statements of activities when the home is sold.

Approximately $10,000 and $10,700 was recorded for donated materials and electrical services on each Habitat home during 2015 and 2014, respectively.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Donated Services and Goods (continued)

Donated property utilized in the operations of Habitat is recorded at the estimated fair value at the date of the donation.

Consistent with the Habitat International *Affiliate Operations Manual*, goods donated to the ReStores are reflected as revenue at the time of sale when there is an objective, measurable basis for determining fair value. This accounting reflects the nature of many donations received by the ReStores wherein significant uncertainties exist about the realizability of the values; thus, fair value is not determinable within reasonable limits until the time of sale.

Contributions

Habitat records contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated based upon estimated usage, square footage, or periodic time and expense studies, as is appropriate to the particular cost being allocated.

Income Taxes

Habitat and HCHD are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and both organizations qualify for the charitable contribution deduction. However, income from activities not directly related to their tax-exempt purposes is subject to taxation as unrelated business income. There were no unrelated business income taxes in 2015 and 2014.

Habitat applies a more-likely-than-not measurement methodology to reflect the consolidated financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2015 (reviewed) and 2014 (audited).

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Income Taxes (continued)

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as other operating expense. No interest or penalties have been assessed as of December 31, 2015 (reviewed) and 2014 (audited).

Use of Estimates

The preparation of consolidated 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 disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period.

Recently Issued Accounting Pronouncements

In February 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-02, *Leases*. The new standard establishes a right-of-use ("ROU") model that requires a lessee to record a ROU asset and a lease liability on the consolidated statements of financial position for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the consolidated statement of activities. The new standard is effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years. A modified retrospective transition approach is required for lessees for capital and operating leases existing at, or entered into after, the beginning of the earliest comparative period presented in the consolidated financial statements, with certain practical expedients available. Habitat is evaluating the potential impact on its consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03, *Interest—Imputation of Interest (Subtopic 835-30): Simplifying the Presentation of Debt Issuance Costs*. This guidance requires that debt issuance costs related to a recognized debt liability be presented on the consolidated statement of financial position as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. This new standard is effective for annual reporting periods beginning after December 15, 2015.

Subsequent Events

Habitat has evaluated all subsequent events through the auditors' report date, which is the date the consolidated financial statements were available for issuance, and determined there were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements except for the following:

Habitat has changed its fiscal year-end from December 31 to June 30.. This change took effect January 1, 2016, resulting in Habitat's next fiscal year ending on June 30, 2016.

Note 2 - Investments Held by The Denver Foundation

Invested funds at the Foundation are pooled with other funds in a diversified portfolio maintained by the Foundation in order to realize the benefits of common administration, but Habitat retains all legal and equitable ownership rights.

The investment return on Habitat's pro rata share of the pooled investments held by the Foundation is summarized as follows:

	December 31,	
	2015 (Reviewed)	2014 (Audited)
Ordinary (loss) income	$ (1,747)	$ 16,950
Realized gains, net	89,427	43,512
Unrealized (losses) gains, net	(230,545)	77,321
Total unrestricted investment (loss) income	$ (142,865)	$ 137,783

Note 3 - Fair Value Measurement

Habitat values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the following fair value hierarchy prioritizes inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, or 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The carrying amounts of financial assets required to be measured at fair value on a recurring basis include investments held by the Foundation, the fair value of which is based upon information determined and reported by the Foundation and corroborated with the Foundation's audited consolidated financial statements by management. Habitat's pro rata share of the pooled investments does not have an active market and is, therefore, classified under Level 3 in the fair value hierarchy.

Note 3 - Fair Value Measurement (continued)

Below is a reconciliation of the beginning and ending balance of assets held by the Foundation measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Beginning balance	$ 2,362,228	$ 2,253,256
Total realized and unrealized gains	(142,865)	137,783
Purchases	4,000,000	-
Disbursements	(750,000)	-
Distributions for fees paid to the Foundation	(61,842)	(28,811)
Ending balance	$ 5,407,521	$ 2,362,228

Note 4 - Construction in Progress

Construction in progress consists of undeveloped land and infrastructure costs, as well as partially completed single-family and multi-family dwellings. At December 31, 2015 (reviewed) and 2014 (audited), 60 and 79 units were under development beyond the land purchase phase, respectively. Included in the units under development are 30 and 20 critical home repair projects at December 31, 2015 (reviewed) and 2014 (audited), respectively.

Habitat's construction in progress is comprised of the following:

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Completed homes ready for sale	$ 799,322	$ 423,164
Construction in progress	2,074,191	2,384,196
Land under development	836,381	728,133
Land acquired for development	699,159	806,962
	$ 4,409,053	$ 4,342,455

Note 5 - Mortgage Notes Receivable

Mortgage notes receivable consist of non-interest-bearing notes received from homebuyers in connection with the sale of homes constructed by Habitat. The notes are discounted to their present values using the market rate of interest at the closing date; the discount rate varies from 3.2% to 8.8%. The discount is amortized over the lives of the mortgages using the effective interest method.

Note 5 - Mortgage Notes Receivable (continued)

Habitat's mortgage notes receivable are as follows:

	December 31,	
	2015 (Reviewed)	2014 (Audited)
Face value of outstanding mortgages receivable	$ 22,653,604	$ 26,146,143
Less discount	(8,757,260)	(10,097,650)
	$ 13,896,344	$ 16,048,493

Approximately $1,134,000 will be due in 2016 on the above notes.

All mortgage notes receivable are collateralized by the respective homes sold. A committee of the Board meets together with management on a regular basis to review delinquent loans and to consider if any foreclosure proceedings should be initiated. Receivable balances are considered to be delinquent based on contractual terms. The need for an allowance is based on past collection experience and on analysis of current mortgage receivable collectibility. Management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan outstanding; therefore, no allowance for uncollectible mortgages is recorded.

Loans Sold to CHFA

In a previous year, Habitat transferred its interest in certain mortgages receivable to the Colorado Housing and Finance Authority ("CHFA") in replacement of non-performing mortgages. The transactions were recorded as a sale in the accompanying consolidated financial statements. Non-performing mortgages were retained by Habitat, and the unamortized discount on these mortgages was restored and netted with mortgage interest income in the accompanying consolidated statements of activities.

The sales agreement with CHFA requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within sixty days, Habitat is required to substitute one or more other mortgage loans, which have an aggregate principal balance at least equal to but not more than 125% of the outstanding balance of the mortgage loan being replaced. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At December 31, 2015, the outstanding principal balance of loans held by CHFA that are guaranteed by Habitat was $7,942,689 (reviewed).

Note 5 - Mortgage Notes Receivable (continued)

Loans Sold to Banks

During 2015, Habitat sold its interest in certain mortgages receivable to a bank (the "Bank"), receiving $5,614,108 in cash proceeds related to the sale. The transaction was recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the loan of $2,540,663 during 2015 arising from the unamortized discount on the mortgage notes interest sold. Habitat continues to service these loans on the Bank's behalf.

The sales agreement with the Bank requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within ninety days, Habitat is required to perform one of the following within forty-five days of the Bank's notice: repurchase the loan; substitute with a performing loan of equitable terms, balance, and property; or substitute the mortgagor. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At December 31, 2015, the outstanding principal balance of loans held by the Bank that are guaranteed and serviced by Habitat was $6,688,620 (reviewed).

During 2014, Habitat sold its interest in certain mortgages receivable to a different bank (the "Second Bank"), receiving $1,032,467 in cash proceeds related to the sale. The transaction was recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the loan of $708,475 during 2014 arising from the unamortized discount on the mortgage notes interest sold. There was no revenue from this transaction recognized in 2015. Habitat continues to service these loans on the Second Bank's behalf.

The loan agreement with the Second Bank requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within ninety days, Habitat is required to perform one of the following within forty-five days of the Second Bank's notice: repurchase the loan; substitute with a performing loan of equitable terms, balance, and property; or substitute the mortgagor. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At December 31, 2015, the outstanding principal balance of loans held by the Second Bank that are guaranteed and serviced by Habitat was $1,328,332 (reviewed).

In a previous year, Habitat sold its interest in certain mortgages receivable to the same Second Bank, receiving $1,991,754 in cash proceeds related to the sale. The transaction was recorded as a sale in the accompanying consolidated financial statements. Habitat continues to service these loans on the Second Bank's behalf.

Note 5 - Mortgage Notes Receivable (continued)

Loans Sold to Banks (continued)

The sales agreement with the Second Bank requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within thirty days, Habitat is required to perform one of the following within forty-five days of the Second Bank's notice: repurchase the loan; substitute with a performing loan of equitable terms, balance, and property; or substitute the mortgagor. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At December 31, 2015, the outstanding principal balance of loans held by the Second Bank that are guaranteed and serviced by Habitat was $2,282,480 (reviewed).

Note 6 - Property and Equipment

Habitat's property and equipment are comprised of the following:

	December 31,	
	2015 (Reviewed)	2014 (Audited)
Buildings	$ 3,970,861	$ 3,911,011
Leasehold improvements	229,941	82,528
Vehicles	221,149	181,687
Furniture and fixtures	116,238	115,243
Office equipment	46,150	33,430
Construction equipment	12,847	12,847
Warehouse equipment	12,470	12,470
	4,609,656	4,349,216
Less accumulated depreciation	(1,455,650)	(1,249,796)
	$ 3,154,006	$ 3,099,420

Note 7 - Line-of-Credit

Habitat has a $1,000,000 line-of-credit agreement with a bank, due September 18, 2016. The line-of-credit agreement requires monthly interest payments at *The Wall Street Journal* prime rate less 0.25%, with a floor of 3.00% (the interest rate at December 31, 2015 was 3.00%). Amounts outstanding are collateralized by certain mortgage notes receivable and deposit accounts held with the bank. At December 31, 2015 (reviewed) and 2014 (audited), there were no amounts outstanding under this agreement.

Note 8 - Mortgage Note Payable

Habitat's mortgage note payable consists of the following:

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Mortgage note due in equal monthly payments of principal and interest of $10,510 with remaining principal due in a balloon payment on June 30, 2020. The note is payable over 10 years, at a fixed rate of 4.8%, with payments amortized over a 20-year basis. The note is secured by a first deed of trust on the Eliot Street and Rio Grande Boulevard real properties, as well as all rents on such property.	$ 1,309,774	$ 1,370,543

Habitat was in compliance with the debt service coverage ratio as required by the note agreement as of December 31, 2015.

Maturities of mortgage note payable obligations are as follows:

For the Year Ending December 31,	
2016	$ 64,691
2017	67,865
2018	71,195
2019	74,689
2020	1,031,334
Thereafter	-
	$ 1,309,774

Note 9 - Notes Payable

Habitat's notes payable consist of the following:

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Note due in equal annual payments of principal only of $237,000 through 2015. The note was secured by a first deed of trust on the property purchased. The deed was partially released upon the sale of each of the existing eleven individual units to a qualifying homeowner. Management believes the effect of imputing interest on this note payable to be insignificant.	$ -	$ 237,000

Note 9 - Notes Payable (continued)

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Note payable to a bank bearing 0% interest, payable in equal monthly payments $3,898, through September 1, 2031, followed by declining payments ranging from $3,611 to $480, and maturing March 31, 2042. The note is secured by deeds of trust related to the underlying mortgage loans pledged by Habitat.	981,793	1,028,569
	$ 981,793	$ 1,265,569

Maturities of notes payable obligations are as follows:

For the Year Ending December 31,	
2016	$ 46,776
2017	46,776
2018	46,776
2019	46,776
2020	46,776
Thereafter	747,913
	$ 981,793

Note 10 - Notes Payable to HFHI

Habitat's notes payable to HFHI consist of the following:

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Unsecured, non-interest-bearing notes payable to Habitat International, payable in monthly installments ranging from $78 to $1,328, maturing between December 2015 and December 2020.	$ 212,749	$ 192,671

Note 10 - Notes Payable to HFHI (continued)

Principal payments required under the above agreements are as follows:

For the Year Ending December 31,

2016	$ 28,968
2017	37,405
2018	47,025
2019	47,025
2020	34,481
Thereafter	17,845
	$ 212,749

Note 11 - Investment in HFHI-SA Leverage IX, LLC

During 2011, Habitat entered into a NMTC program. The program provides funds to eligible organizations for investments in a qualified low-income community investment. As a participant in this program, Habitat invested in HFHI-SA Leverage IX, LLC ("HFHI-SA") with other affiliates of HFHI and also entered into a promissory note with HFHI-SA VI, LLC, a qualified community development entity ("CDE"). Habitat has invested in a 17.78% ownership of HFHI-SA, which was initially recorded at its cost of $3,687,447, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. HFHI-SA invested these funds in an investment fund, which in turn made an investment in the CDE. During the years ended December 31, 2015 (reviewed) and 2014 (audited), Habitat increased its investment balance by $101,618 and $101,617, respectively, for Habitat's portion of HFHI-SA's earnings offset by $36,702 and $36,702, respectively, for distributions received from HFHI-SA.

The following is unaudited summarized financial information as to assets, liabilities, and results of operations of HFHI-SA:

	As of and For the Years Ended December 31, 2015	2014
Total assets	$ 22,215,651	$ 21,850,438
Total liabilities	$ -	$ -
Total revenue	$ 571,696	$ 571,691
Net income	$ 571,696	$ 571,691

Note 11 - Investment in HFHI-SA Leverage IX, LLC (continued)

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $649,000, net of transaction expenses, which can be utilized to build homes or infrastructure, or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of December 31, 2015, Habitat is in compliance with these conditions.

Habitat has a promissory note due to the CDE of $4,858,200. This note requires interest-only payments until July 2019 at 0.76%. The loan matures in July 2027 and is secured by certain depository and reserve bank accounts. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of HFHI-SA, which is repaid to the investment fund. The interest is then returned to HFHI-SA and, ultimately, 99.98% of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of HFHI-SA. In July 2019, the investment fund may exercise a put option resulting in HFHI-SA holding the debt, thereby releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the tangible net worth ratio as required by the note agreement as of December 31, 2015.

Note 12 - Investment in CCML Leverage Lender I, LLC

During 2012, Habitat participated in a second NMTC program. As a participant in this program, Habitat invested in CCML Leverage Lender I, LLC ("CCML") with other affiliates of HFHI and also entered into a promissory note with CCM Community Development XVII LLC, a qualified CDE. Habitat has invested in a 20.00% ownership of CCML, which was initially recorded at its cost of $1,450,464, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. CCML invested these funds in an investment fund, which in turn made an investment in the CDE. During the years ended December 31, 2015 (reviewed) and 2014 (audited), Habitat increased its investment balance by $39,196 and $39,197, respectively, for Habitat's portion of CCML's earnings offset by $14,504 and $14,506, respectively, for distributions received from CCML.

The following is unaudited summarized financial information as to assets, liabilities, and results of operations of CCML:

	As of and For the Years Ended December 31, 2015	As of and For the Years Ended December 31, 2014
Total assets	$ 15,355,769	$ 15,138,968
Total liabilities	$ -	$ -
Total revenue	$ 361,761	$ 391,754
Net income	$ 361,761	$ 391,754

Note 12 - Investment in CCML Leverage Lender I, LLC (continued)

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately $300,000, net of transaction expenses, which can be utilized to build homes or infrastructure, or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of December 31, 2015, Habitat is in compliance with these conditions.

Habitat has a promissory note due to the CDE of $1,880,000. This note requires interest-only payments until November 2020 at 0.77%. The loan matures in May 2028 and is secured by substantially all the assets acquired from the loan proceeds. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of CCML, which is repaid to the investment fund. The interest is then returned to CCML and, ultimately, 99.99% of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of CCML. In June 2019, the investment fund may exercise a put option resulting in CCML holding the debt, therefore releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the tangible net worth and debt service coverage ratios as required by the note agreement as of December 31, 2015.

Note 13 - Forgivable Notes Payable

Habitat's forgivable notes payable consist of the following:

	December 31,	
	2015 (Reviewed)	2014 (Audited)
Notes due to the Denver Housing Authority and Globeville Workforce Housing. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue during 2018, subject to Habitat meeting certain demographic guidelines. As of December 31, 2015, Habitat is meeting these demographic guidelines. During 2014, a portion of these notes were forgiven in the amount of $137,500.	$ 840,000	$ 840,000
Notes due to the City and County of Denver. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue upon the sale of the last units developed with these funds to qualifying homeowners. As of December 31, 2015, Habitat is using the funds for those specified purposes. During 2015, a portion of these notes were forgiven in the amount of $2,430,250.	1,792,100	4,222,350
	$ 2,632,100	$ 5,062,350

Note 14 - Net Assets

Unrestricted Board-Designated

The Board has designated $2,000,000 of unrestricted net assets at December 31, 2015 (reviewed) and 2014 (audited), respectively, for future land and infrastructure costs expected on outstanding and planned projects.

Temporarily Restricted

Temporarily restricted net assets are comprised of the following:

	December 31, 2015 (Reviewed)	December 31, 2014 (Audited)
Home sponsorships	$ 1,328,942	$ 484,719
Land grant	229,990	229,990
Total	$ 1,558,932	$ 714,709

Note 15 - Lease Agreements

Habitat has entered into five non-cancelable operating leases agreements for ReStore buildings. The leases require escalating monthly payments ranging from approximately $1,250 to $15,000 and expire at various times ranging from October 2018 to July 2021. Habitat has also entered into non-cancelable operating lease agreements for five vehicles. The lease agreements have monthly payments ranging from $1,099 to $1,594, which include maintenance charges, and expire at various times ranging from February 2016 to June 2020. Lease expense for the years ended December 31, 2015 (reviewed) and 2014 (audited) was $605,439 and $491,365, respectively.

Future minimum lease payments, including estimated maintenance charges, are approximately as follows:

For the Year Ending December 31,	
2016	$ 645,000
2017	659,000
2018	648,000
2019	484,000
2020	311,000
Thereafter	131,000
	$ 2,878,000

Note 16 - Transactions with Habitat International and Habitat Colorado

Habitat voluntarily remits a portion of its contributions to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended December 31, 2015 (reviewed) and 2014 (audited), Habitat contributed $204,234 and $192,152, respectively, to Habitat International. This amount is included in program services in the consolidated statements of activities.

Habitat is a sub-recipient of certain government grants received directly by Habitat International and Habitat Colorado.

Note 17 - Commitments and Contingencies

Guarantee Agreements

Habitat has entered into various grant agreements to receive funds for construction development costs. The grant arrangements require individuals who purchase homes funded by these grant monies to sign a promissory note payable to the grantor agency for a specified amount. The promissory note must be repaid to the grantor in the event of a sale, transfer, or other disposition of the home within a specified period of time. The promissory note is forgiven if a sale, transfer, or other disposition of the home does not occur within the time specified in the grant agreement.

Habitat has guaranteed these homeowners' promissory notes to the grantor agencies. Should Habitat need to foreclose on a home, it will pay the homeowner's promissory note from the proceeds arising from the resale of the home.

Grant Awards

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audits. Such audits could result in claims against Habitat for disallowed costs or non-compliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits as Habitat management believes that the use of funds comply with the stipulated restrictions.

Claims and Litigation

Habitat is subject to litigation from time to time. Habitat has determined that there are no material claims outstanding as of December 31, 2015 and 2014. However, to the extent not covered by insurance, Habitat has established a reserve for loss contingencies that are considered probable and reasonably estimable.

Note 18 - Retirement Plan

Habitat maintains a tax-deferred annuity plan (the "Plan") qualified under IRC Section 401(k). The Plan covers all employees of Habitat. Habitat provides employees the opportunity to contribute a portion of their gross salaries to the Plan, up to the maximum amount established by the Plan. Habitat matches 100% of employees' contributions up to a maximum of 3% of the employees' annual compensation. During 2015 and 2014, Habitat contributed $146,186 and $97,890, respectively, in matching contributions to the Plan. Effective January 1, 2014, Habitat amended the Plan for a safe harbor match of each participant's elective deferrals not exceeding 3% of the participant's compensation, plus 50% of the participant's elective deferrals in excess of 3% but not in excess of 5% of the participant's compensation.