Consolidated Financial Statements
and
Independent Auditors' Report
June 30, 2016

HABITAT FOR HUMANITY OF METRO DENVER, INC.

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7979 E. Tufts Avenue, Suite 400
Denver, Colorado 80237-2521
P: 303-740-9400
F: 303-740-9009
www.EKSH.com

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Metro Denver, Inc. (a non-profit corporation), which are comprised of the consolidated statement of financial position for the period from January 1, 2016 through June 30, 2016, and the related consolidated statements of activities, functional expenses, and cash flows for the period then ended, and the related notes to the consolidated financial statements.

MANAGEMENT'S RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Metro Denver, Inc. for the period from January 1, 2016 through June 30, 2016, and the changes in its net assets and its cash flows for the period then ended in accordance with accounting principles generally accepted in the United States of America.

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October 19, 2016
Denver, Colorado

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statement of Financial Position
June 30, 2016

Assets

Assets		
Cash and cash equivalents	$	1,836,046
Investments held by The Denver Foundation (Notes 2 and 3)		3,893,780
Escrow deposits held in trust		84,780
Grants receivable		469,592
Construction in progress (Note 4)		6,481,279
Other assets		660,634
Mortgage notes receivable, net (Note 5)		15,215,493
Investment in HFHI-SA Leverage IX, LLC (Note 11)		3,981,250
Investment in CCML Leverage Lender I, LLC (Note 12)		1,548,768
Property and equipment, net (Note 6)		3,070,314
Deferred loan costs		180,012
Total assets	$	37,421,948

Liabilities and Net Assets

Liabilities		
Accounts payable	$	263,740
Other accrued expenses		503,677
Homeowner deposits		13,850
Deferred rent		156,850
Escrow deposits held in trust		84,780
Mortgage note payable (Note 8)		1,278,589
Notes payable (Note 9)		1,658,405
Notes payable HFHI (Note 10)		263,191
Note payable HFHI-SA NMTC VI, LLC (Note 11)		4,858,200
Note payable CCM Community Development XVII, LLC (Note 12)		1,880,000
Forgivable notes payable (Note 13)		2,632,100
Total liabilities		13,593,382
Commitments and contingencies (Notes 7, 15, 17, and 18)		
Net assets (Note 14)		
Unrestricted		
Board-designated for land and infrastructure		2,000,000
Undesignated		20,275,922
Total unrestricted		22,275,922
Temporarily restricted		1,552,644
Total net assets		23,828,566
Total liabilities and net assets	$	37,421,948

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statement of Activities
For the Period from January 1, 2016 to June 30, 2016

	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support			
Contributions and grants	$ 1,580,031	$ 712,970	$ 2,293,001
Donated goods and services	678,576	-	678,576
Home sales	1,549,487	-	1,549,487
Mortgage interest income	420,597	-	420,597
Discount earned on the sale of receivables	32,000	-	32,000
Sales from ReStores, net of cost of purchased inventory of $(192,867)	2,322,765	-	2,322,765
Other income	13,618	-	13,618
Net assets released from restrictions due to satisfaction of expenditure requirements	719,258	(719,258)	-
Total revenues, gains, and support	7,316,332	(6,288)	7,310,044
Expenses			
Program services			
Home construction	4,233,634	-	4,233,634
Family services	379,981	-	379,981
ReStores	2,140,812	-	2,140,812
Total program services	6,754,427	-	6,754,427
Supporting services			
Management and general	416,065	-	416,065
Fundraising activities	454,684	-	454,684
Total supporting services	870,749	-	870,749
Total expenses	7,625,176	-	7,625,176
Change in net assets before other income	(308,844)	(6,288)	(315,132)
Investment income	97,730	-	97,730
Change in net assets	(211,114)	(6,288)	(217,402)
Net assets at beginning of year	22,487,036	1,558,932	24,045,968
Net assets at end of year	$ 22,275,922	$ 1,552,644	$ 23,828,566

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statement of Functional Expenses
For the Period from January 1, 2016 to June 30, 2016

	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	$ 2,557,016	$ -	$ -	$ 2,557,016	$ -	$ -	$ -	$ 2,557,016
Salaries and wages	638,437	218,788	1,068,633	1,925,858	143,667	255,317	398,984	2,324,842
Volunteer labor on homes	421,770	-	-	421,770	-	-	-	421,770
Occupancy	19,730	5,657	355,053	380,440	11,360	9,723	21,083	401,523
Payroll taxes and benefits	116,456	41,010	238,794	396,260	45,153	45,530	90,683	486,943
Habitat for Humanity International tithe	119,985	-	-	119,985	-	-	-	119,985
Depreciation and amortization	60,200	13,051	33,121	106,372	17,140	15,688	32,828	139,200
Professional fees	5,577	55,249	27,686	88,512	71,690	4,647	76,337	164,849
Bank and investment fees	-	-	42,185	42,185	41,169	6,104	47,273	89,458
Insurance	54,640	7,623	62,865	125,128	7,834	5,831	13,665	138,793
Other construction costs	67,928	19,965	-	87,893	745	-	745	88,638
Marketing and communications	7,591	633	117,373	125,597	-	85,749	85,749	211,346
Office supplies	12,259	3,565	54,100	69,924	17,958	4,378	22,336	92,260
Vehicle expense	16,707	227	78,182	95,116	142	137	279	95,395
Interest expense	39,571	3,985	-	43,556	7,490	6,631	14,121	57,677
Volunteer expense	55,797	186	4,177	60,160	-	1,867	1,867	62,027
Telephone	7,069	1,733	23,879	32,681	1,540	1,306	2,846	35,527
Printing and postage	5,313	2,723	9,358	17,394	4,055	4,731	8,786	26,180
Miscellaneous	29	977	19	1,025	534	107	641	1,666
Administrative fees	-	-	2,033	2,033	25,747	891	26,638	28,671
Equipment purchase and repair expense	22,140	-	14,110	36,250	-	-	-	36,250
Staff development	2,629	2,797	1,423	6,849	9,197	3,054	12,251	19,100
Travel and transportation	2,790	1,812	7,821	12,423	10,644	2,993	13,637	26,060
Total expenses	$ 4,233,634	$ 379,981	$ 2,140,812	$ 6,754,427	$ 416,065	$ 454,684	$ 870,749	$ 7,625,176

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statement of Cash Flows
For the Period from January 1, 2016 to June 30, 2016

Cash flows from operating activities	
Change in net assets	$ (217,402)
Adjustments to reconcile change in net assets to net cash used in operating activities	
Mortgages made to homeowners	(1,549,487)
Discount earned on sale of mortgage receivables	(32,000)
Amortization of mortgage loan discounts	(420,597)
Depreciation and amortization expense	117,997
Amortization of New Market Tax Credit loan costs	21,203
Deferred rent	(2,278)
Net realized and unrealized gain on investments	(27,323)
Changes in assets and liabilities	
Grants receivable	(84,409)
Construction in progress	(2,072,226)
Other assets	151,010
Distributions received from New Market Tax Credit investments	(41,804)
Accounts payable	(145,437)
Other accrued expenses	107,515
Homeowner deposits	(685)
	(3,978,521)
Net cash used in operating activities	(4,195,923)
Cash flows from investing activities	
Mortgage principal payments received	682,935
Proceeds from sale of investments held by The Denver Foundation	1,500,000
Distributions for fees paid to The Denver Foundation	41,064
Payments for purchases of equipment	(34,305)
Net cash provided by investing activities	2,189,694
Cash flows from financing activities	
Repayments of mortgage note payable	(31,185)
Repayments of notes payable	(23,388)
Proceeds from notes payable	700,000
Repayments of notes payable HFHI	(8,160)
Proceeds from notes payable HFHI	58,602
Net cash provided by financing activities	695,869
Net decrease in cash and cash equivalents	(1,310,360)
Cash and cash equivalents at beginning of period	3,146,406
Cash and cash equivalents at end of period	$ 1,836,046

(Continued on the following page)

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statement of Cash Flows
For the Period from January 1, 2016 to June 30, 2016

(Continued from the previous page)

Supplemental disclosure of cash flow information:

Interest paid was $23,532 for the period from January 1, 2016 to June 30, 2016.

Supplemental disclosure of non-cash activity:

Issuance of non-interest-bearing mortgage loans	$ 2,677,762
Discount on non-interest-bearing mortgage loans	(1,128,275)
Transfers to homeowners subject to non-interest-bearing mortgage loans	$ 1,549,487

See notes to consolidated financial statements.

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.

Habitat changed its fiscal year-end from December 31 to June 30. This change took effect January 1, 2016, resulting in Habitat having a six-month fiscal year in the initial year of change.

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 statement 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 statement of financial position. Unrealized gains and losses are included in the change in net assets in the consolidated statement 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 June 30, 2016, 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 June 30, 2016, Habitat had deposits in excess of federally insured limits of approximately $1,817,000. 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 3 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 statement of functional expenses. Amortization expense for the period from January 1, 2016 to June 30, 2016 was $21,203.

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 2016, 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. These volunteer costs are recognized as contribution revenue and cost of homes sold in the consolidated statement of activities when the home is sold.

Approximately $12,600 was recorded for donated materials and electrical services on each Habitat home during 2016.

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

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

Donated Services and Goods (continued)

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 statement 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 statement 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 2016.

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 were considered to be uncertain; therefore, no amounts have been recognized as of June 30, 2016.

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 June 30, 2016.

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

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 issued Accounting Standards Update 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.

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 began leasing properties in July 2016, with one-year lease agreements and annual lease revenue expected to be $63,250 in 2017 and $950 in 2018.

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 as of June 30, 2016:

Ordinary income	$ 15,932
Realized gains, net	51,158
Unrealized losses, net	(39,767)
Total unrestricted investment income	$ 27,323

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.

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) as of June 30, 2016:

Beginning balance	$ 5,407,521
Total realized and unrealized gains	27,323
Disbursements	(1,500,000)
Distributions for fees paid to the Foundation	(41,064)
Ending balance	$ 3,893,780

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 June 30, 2016, 64 units were under development beyond the land purchase phase. Included in the units under development are 30 critical home repair projects at June 30, 2016.

Note 4 - Construction in Progress (continued)

Habitat's construction in progress is comprised of the following as of June 30, 2016:

Completed homes ready for sale	$ 1,466,703
Construction in progress	2,479,583
Land under development	1,828,886
Land acquired for development	706,107
	$ 6,481,279

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.

Habitat's mortgage notes receivable are as follows as of June 30, 2016:

Face value of outstanding mortgages receivable	$ 24,680,432
Less discount	(9,464,939)
	$ 15,215,493

Approximately $1,141,000 will be due in the year ending June 30, 2017 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 statement of activities.

Note 5 - Mortgage Notes Receivable (continued)

Loans Sold to CHFA (continued)

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 60 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 June 30, 2016, the outstanding principal balance of loans held by CHFA that are guaranteed by Habitat was $7,539,161.

Loans Sold to Banks

In a previous year, 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. 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 90 days, Habitat is required to perform one of the following within 45 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 June 30, 2016, the outstanding principal balance of loans held by the Bank that are guaranteed and serviced by Habitat was $6,529,954.

In a previous year, 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. 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 90 days, Habitat is required to perform one of the following within 45 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 June 30, 2016, the outstanding principal balance of loans held by the Second Bank that are guaranteed and serviced by Habitat was $1,299,402.

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.

Note 5 - Mortgage Notes Receivable (continued)

Loans Sold to Banks (continued)

Habitat continues to service these loans on the Second Bank's behalf.

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 30 days, Habitat is required to perform one of the following within 45 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 June 30, 2016, the outstanding principal balance of loans held by the Second Bank that are guaranteed and serviced by Habitat was $2,220,627.

Note 6 - Property and Equipment

Habitat's property and equipment are comprised of the following as of June 30, 2016:

Buildings	$ 3,991,898
Leasehold improvements	237,998
Vehicles	226,361
Furniture and fixtures	116,238
Office equipment	46,150
Construction equipment	12,847
Warehouse equipment	12,470
	4,643,962
Less accumulated depreciation	(1,573,648)
	$ 3,070,314

Note 7 - Line-of-Credit

Habitat has a $1,000,000 line-of-credit agreement with a bank, due September 18, 2017. 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 June 30, 2016 was 3.25%). Amounts outstanding are partially collateralized by certain mortgage notes receivable and deposit accounts held with the bank. At June 30, 2016, there were no amounts outstanding under this agreement.

Note 8 - Mortgage Note Payable

Habitat's mortgage note payable consists of the following as of June 30, 2016:

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.	$ 1,278,589

Habitat was in compliance with the debt service coverage ratio as required by the note agreement as of June 30, 2016.

Maturities of mortgage note payable obligations are as follows:

For the Year Ending June 30,	
2017	$ 66,259
2018	69,510
2019	72,921
2020	1,069,899
	$ 1,278,589

Note 9 - Notes Payable

Habitat's notes payable consist of the following as of June 30, 2016:

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.	$ 958,405
Note payable to a school district bearing 0% interest, payable in equal annual payments of $350,000 on March 31, 2017 and 2018. The note is secured by deeds of trust related to the underlying land purchased by Habitat.	700,000
	$ 1,658,405

Note 9 - Notes Payable (continued)

Maturities of notes payable obligations are as follows:

For the Year Ending June 30,		
2017	$	396,776
2018		396,776
2019		46,776
2020		46,776
2021		46,776
Thereafter		724,525
	$	1,658,405

Note 10 - Notes Payable to HFHI

Habitat's notes payable to HFHI consist of the following as of June 30, 2016:

Unsecured, non-interest-bearing notes payable to Habitat International; payable in monthly installments ranging from $78 to $1,328; maturing between July 2017 and January 2022.	$	263,191

Principal payments required under the above agreements are as follows:

For the Year Ending June 30,		
2017	$	43,609
2018		45,445
2019		61,682
2020		61,748
2021		34,468
Thereafter		16,239
	$	263,191

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 period from January 1, 2016 to June 30, 2016, Habitat increased its investment balance by $50,809 for Habitat's portion of HFHI-SA's earnings offset by $18,351 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 the six months ended June 30, 2016:

Total assets	$	22,398,258
Total liabilities	$	-
Total revenue	$	285,848
Net income	$	585,848

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 June 30, 2016, 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 June 30, 2016.

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 10.01% 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 period from January 1, 2016 to June 30, 2016, Habitat increased its investment balance by $19,598 for Habitat's portion of CCML's earnings offset by $10,252 for distributions received from CCML.

The following is unaudited summarized financial information as to assets, liabilities, and results of operations of CCML as of the six months ended June 30, 2016:

Total assets	$	15,479,151
Total liabilities	$	-
Total revenue	$	195,872
Net income	$	195,872

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 June 30, 2016, 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, thereby 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 June 30, 2016.

Note 13 - Forgivable Notes Payable

Habitat's forgivable notes payable consist of the following as of June 30, 2016:

Notes due to the Denver Housing Authority. 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 June 30, 2016, Habitat is meeting these demographic guidelines.	$ 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 June 30, 2016, Habitat is using the funds for those specified purposes.	1,792,100
	$ 2,632,100

Note 14 - Net Assets

Unrestricted Board-Designated

The Board has designated $2,000,000 of unrestricted net assets at June 30, 2016 for future land and infrastructure costs expected on outstanding and planned projects.

Temporarily Restricted

Temporarily restricted net assets are comprised of the following as of June 30, 2016:

Home sponsorships	$ 1,322,654
Land grant	229,990
Total	$ 1,552,644

Note 15 - Lease Agreements

Habitat has entered into six non-cancelable operating leases agreements, five of which are for ReStore buildings and one of which is for a production warehouse. The leases require escalating monthly payments ranging from approximately $1,500 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 eight vehicles. The lease agreements have monthly payments ranging from approximately $1,000 to $1,600, which include maintenance charges, and expire at various times ranging from February 2018 to February 2021. Lease expense for the period from January 1, 2016 to June 30, 2016 was $336,965.

Note 15 - Lease Agreements (continued)

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

For the Year Ending June 30,		
2017	$	694,000
2018		712,000
2019		619,000
2020		465,000
2021		248,000
Thereafter		19,000
	$	2,757,000

Note 16 - Transactions with Habitat International and Habitat for Humanity of 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 period from January 1, 2016 to June 30, 2016, Habitat contributed $119,985 to Habitat International. This amount is included in program services in the consolidated statement of activities.

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

Note 17 - Commitments and Contingencies (continued)

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 June 30, 2016. 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 2016, Habitat contributed $68,202 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.