

**HABITAT FOR HUMANITY
OF MORGAN COUNTY, INC.
(A NONPROFIT ORGANIZATION)**

FINANCIAL STATEMENTS

**JUNE 30, 2017
WITH SUMMARIZED COMPARATIVE FINANCIAL
INFORMATION AS OF AND FOR THE YEAR
ENDED JUNE 30, 2016**

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

TABLE OF CONTENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL
INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2016

	Page
Independent Auditors' Report	1-2
Financial Statements:	
Statement of Financial Position	3-4
Statement of Activities and Changes in Net Assets	5
Statement of Cash Flows	6
Statement of Functional Expenses	7
Notes to Financial Statements	8-15



Independent Auditors' Report

Board of Directors
HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.
Martinsville, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Morgan County, Inc., which comprise the statement of financial position as of June 30, 2017, and the related statements of activities and changes in net assets, functional expenses, and cash flows, for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

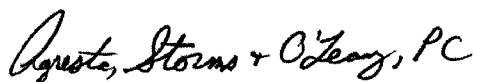
We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Morgan County, Inc. as of June 30, 2017 and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Summarized Comparative Information

We have previously audited the Habitat for Humanity of Morgan County, Inc.'s June 30, 2016 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated October 31, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016 is consistent, in all material respects, with the audited financial statements from which is have been derived.



Martinsville, Indiana
August 29, 2017

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE
FINANCIAL INFORMATION AS OF JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 12,077	\$ 85,097
Grant receivable	-0-	36,763
Other receivables	5,530	4,908
Land and housing inventory	14,718	39,128
Prepaid expenses	<u>2,878</u>	<u>2,878</u>
Total current assets	<u>35,203</u>	<u>168,774</u>
Property and equipment:		
Land	25,450	25,450
Building and improvements	124,408	124,408
Equipment	63,074	60,924
Furniture and fixtures	<u>5,559</u>	<u>5,559</u>
	218,491	216,341
Accumulated depreciation	<u>(98,329)</u>	<u>(86,560)</u>
Property and equipment, net	<u>120,162</u>	<u>129,781</u>
Other assets:		
Mortgage notes receivable	407,426	365,517
Construction-in-progress	31,481	182,221
Beneficial interest in assets held by Community Foundation	<u>35,984</u>	<u>33,000</u>
Total other assets	<u>474,891</u>	<u>580,738</u>
Total assets	<u><u>\$ 630,256</u></u>	<u><u>\$ 879,293</u></u>

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE
FINANCIAL INFORMATION AS OF JUNE 30, 2016

	<u>2017</u>	<u>2016</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Line of credit	\$ 10,000	\$ 29,250
Accounts payable	8,256	20,035
Escrow deposits	1,648	3,632
Accrued liabilities	846	906
Current maturities of note payable	2,646	-0-
Current maturities of capital lease obligations	<u>1,116</u>	<u>1,014</u>
Total current liabilities	24,512	54,837
Note payable , net of current maturities	9,500	-0-
Capital lease obligations , net of current maturities	<u>2,117</u>	<u>3,233</u>
Total liabilities	<u>36,129</u>	<u>58,070</u>
Net assets:		
Unrestricted net assets	558,143	788,223
Permanently restricted net assets	<u>35,984</u>	<u>33,000</u>
Total net assets	<u>594,127</u>	<u>821,223</u>
Total liabilities and net assets	<u>\$ 630,256</u>	<u>\$ 879,293</u>

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE
FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30, 2017			Year Ended June 30, 2016
	Unrestricted	Permanently Restricted	Total	
Support and revenues:				
Transfers to homeowners	\$ 174,300	\$ -0-	\$ 174,300	\$ 60,433
Net sales, ReStore	207,193	-0-	207,193	199,371
In-kind contributions	20,422	-0-	20,422	6,951
Cash contributions	43,687	-0-	43,687	47,155
Mortgage loan discount amortization	33,017	-0-	33,017	30,226
Fundraising events	9,032	-0-	9,032	41,367
Gain (loss) on sale of properties	(5,556)	-0-	(5,556)	43,410
Interest income	1,482	-0-	1,482	596
Gain on beneficial interest	-0-	2,984	2,984	-0-
Grants	56,288	-0-	56,288	54,234
Total support and revenues	<u>539,865</u>	<u>2,984</u>	<u>542,849</u>	<u>483,743</u>
Expenses:				
Program services	677,512	-0-	677,512	342,672
General administration	91,299	-0-	91,299	79,966
Fundraising	1,134	-0-	1,134	2,809
Total expenses	<u>769,945</u>	<u>-0-</u>	<u>769,945</u>	<u>425,447</u>
Change in net assets	(230,080)	2,984	(227,096)	58,296
Net assets, beginning of year	<u>788,223</u>	<u>33,000</u>	<u>821,223</u>	<u>762,927</u>
Net assets, end of year	<u>\$ 558,143</u>	<u>\$ 35,984</u>	<u>\$ 594,127</u>	<u>\$ 821,223</u>

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

	2017	2016
Cash flows from operating activities:		
Change in net assets	\$ (227,096)	\$ 58,296
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Transfers to homeowners, net	(77,667)	(29,358)
(Gain) loss on sale of properties	5,556	(43,410)
Gain on beneficial interest	(2,984)	-0-
Depreciation	11,769	6,191
Amortization of mortgage discounts	(33,017)	(30,226)
Changes in operating assets and liabilities:		
Grant receivable	36,763	(36,763)
Construction-in-progress	150,740	(143,548)
Land and housing inventory	16,910	(6,628)
Accounts payable	(11,779)	(2,728)
Escrow deposits	(1,984)	(1,845)
Accrued liabilities	(60)	(2,030)
Net cash used in operating activities	(132,849)	(232,049)
Cash flows from investing activities:		
Proceeds from sale of properties	1,944	113,324
Improvements on properties sold	-0-	(18,269)
Purchase of property and equipment	(2,150)	(29,250)
Payments received on mortgage notes receivable	68,153	55,871
Transfer to Community Foundation	-0-	(33,000)
Net cash provided by investing activities	67,947	88,676
Cash flows from financing activities:		
Net borrowings (repayments) on line of credit	(5,000)	29,250
Principal payments on long-term debt	(2,104)	-0-
Principal payments on capital lease obligations	(1,014)	(921)
Net cash provided by (used in) financing activities	(8,118)	28,329
Net decrease in cash and cash equivalents	(73,020)	(115,044)
Cash and cash equivalents, beginning of year	85,097	200,141
Cash and cash equivalents, end of year	\$ 12,077	\$ 85,097
Supplemental disclosure of cash flow information:		
Cash payments for interest	\$ 1,131	\$ 458

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE
FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

	Year Ended June 30, 2017			Total	Year Ended June 30, 2016
	Program Services	General Administration	Fundraising		
Building material and supplies	\$ 230,227	\$ -0-	\$ -0-	\$ 230,227	\$ 63,640
Personnel costs	44,936	45,120	-0-	90,056	142,571
Mortgage discounts	96,633	-0-	-0-	96,633	28,822
Office expense	2,893	8,095	615	11,603	12,084
ReStore expenses	190,029	-0-	-0-	190,029	88,936
Professional services	-0-	8,252	-0-	8,252	5,950
Utilities	3,753	7,723	-0-	11,476	14,802
Insurance	1,532	9,313	-0-	10,845	11,762
Tithe - Habitat International	4,818	-0-	-0-	4,818	8,218
Vehicle expense	-0-	-0-	-0-	-0-	2,525
Outside labor	94,319	-0-	-0-	94,319	27,158
Depreciation	5,884	5,885	-0-	11,769	6,191
Travel	-0-	1,072	-0-	1,072	2,255
Special events	-0-	-0-	519	519	1,783
Telephone	838	839	-0-	1,677	2,757
Printing and reproduction	519	-0-	-0-	519	535
Dues and fees	-0-	5,000	-0-	5,000	5,000
Interest expense	1,131	-0-	-0-	1,131	458
Total	<u>\$ 677,512</u>	<u>\$ 91,299</u>	<u>\$ 1,134</u>	<u>\$ 769,945</u>	<u>\$ 425,447</u>

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

1. ORGANIZATION AND PURPOSE

Habitat for Humanity of Morgan County, Inc. (Habitat or the Organization) was incorporated August 6, 1990 in the State of Indiana. Habitat was established as a nondenominational, Christian, not-for-profit organization for the purposes of constructing modest but adequate housing, and to associate with other organizations functioning with purposes consistent with Habitat. Habitat for Humanity International awarded Habitat "Affiliate" status in 1991.

An Affiliate is an independent, local branch of Habitat for Humanity International (International). Habitat receives support from International through global advertising, brand recognition, and operational manuals, as well as training and other support services. Habitat contributes to International's global ministry through a Tithe program. During the years ended June 30, 2017 and 2016, Habitat participated in the Tithe program with a donation of \$4,818 and \$8,218 to International, respectively.

The principal activities of Habitat include developing, financing, and supervising the construction of homes for low-income families. Habitat also operates two "ReStore" facilities where donated used or excess building supplies are sold to the general public at discount prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

BASIS OF PRESENTATION

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

Unrestricted Net Assets—Funds that have not been restricted in any manner by the donors are referred to as unrestricted net assets. Such funds are currently available for use in the activities of Habitat under the direction of the board, and those resources invested in equipment and furniture. At June 30, 2017 and 2016, Habitat had \$558,143 and \$788,223 in unrestricted net assets, respectively.

Temporarily Restricted Net Assets—Temporarily restricted net assets are amounts received from donors or grantors who have specified the use of their gifts or grants for specific operating purposes or for the acquisition of property and equipment, or those not available for use until commitments regarding their use have been fulfilled, time restrictions have elapsed or lifetime beneficiary interests have ceased. However, contributions that are restricted by the donor are reported as increases to unrestricted net assets if the restriction expires in the year in which the contributions are recognized. At June 30, 2017 and 2016, Habitat had no temporarily restricted net assets.

Permanently Restricted Net Assets—Permanently restricted net assets are those contributed with the donor stipulation that they be held in perpetuity, the principal being invested and maintained intact with use of interest income for unrestricted or temporarily restricted purposes. At June 30, 2017 and 2016, Habitat had \$35,984 and \$33,000 in permanently restricted net assets, respectively. (See Note 8.)

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

CASH AND CASH EQUIVALENTS

Habitat considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents.

Habitat currently services the mortgages on the homes it sells. Included in cash are amounts received for insurance and property taxes on such homes. These amounts are offset by a related liability escrow deposits account of \$1,648 and \$3,632 at June 30, 2017 and 2016, respectively.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and notes to the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in the preparation of the financial statements include the allocation of costs among the Organization's various programs in the statement of functional expenses, the depreciable lives of property and equipment, and mortgage notes receivable.

LAND AND HOUSING INVENTORY

Land and housing inventory consists of real property purchased or donated to the organization for the purpose of future home builds or for resale. The property is recorded at actual cost for purchases or at the estimated value of the property at the time of donation. The Organization reviews the valuation of its property for impairment whenever events or changes in circumstances indicate the carrying value of such property may not be recoverable. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. No impairment loss of has been recognized during the years ended June 30, 2017 and 2016.

PROPERTY AND EQUIPMENT AND DEPRECIATION

Habitat capitalizes purchases at cost that have an estimated useful life of greater than one year. Donated property and equipment are stated at fair market value at the time of the gift. Maintenance, repairs and minor renewals are expensed as incurred. The Organization follows the practice of depreciating the cost of property and equipment using the straight-line method of depreciation over their estimated useful lives which range from 5 to 39 years.

REPOSSESSED PROPERTY

Repossessed property is recorded based on the net mortgage balance on the property at the time of foreclosure. The property is also evaluated and adjusted for the lower of cost or market. Habitat did not hold any repossessed property as of June 30, 2017 and 2016.

CONTRIBUTIONS AND GRANTS

Unrestricted contributions and grants are recognized as revenue in the period received or at the time a claim for the actual cost of providing services is determined and reported in the statement of activities.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

CONTRIBUTED SERVICES

Contributions of goods and services are recognized if the goods or services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Such donations are recorded as revenue at their estimated fair value at the date of donation. For the years ended June 30, 2017 and 2016, approximately \$1,625 and \$196 has been reflected in the financial statements for donated services, respectively.

IN-KIND CONTRIBUTIONS

In-kind contributions as of June 30, 2017 and 2016 of \$20,422 and \$6,951, respectively, consist mostly of construction materials, land, and contributed services and are recorded based on their estimated value on the date of the receipt. No amounts have been reflected in the financial statements for donated labor by unskilled volunteers, as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to Habitat's program services.

UNEARNED REVENUE ON MORTGAGES

Unearned revenue on mortgage loans represents the discounted value of noninterest-bearing second and third mortgage loans obtained on Habitat homes. The homeowner is required to sign a second mortgage for the difference between the estimated fair market value of the home and the first mortgage balance as of the transfer date. These mortgages are fully forgiven if the homeowner lives in the home for a certain period of time and complies with all other covenants and restrictions per the deed of the trust. In the event the homeowner does not comply with these restrictions, the mortgage balance will be recognized as income at the time it is collected. Habitat generally does not foresee collection of second mortgages except in the event of sale, refinance, or foreclosure of the home.

TRANSFERS TO HOMEOWNERS

Transfers to homeowners are recorded at the gross first mortgage amount. Noninterest-bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages, as provided by International. Utilizing the effective interest method, this discount will be recognized as interest income over the term of the mortgage.

RESTORE

In conformity with the Habitat for Humanity International Affiliate Operations Manual Financial Policies, Habitat does not inventory the items donated for sale in the ReStore. Therefore, no adjustment has been made for the value of the items for sale in the ReStore at June 30, 2017 and 2016. ReStore sales are recognized as revenue at the time merchandise is transferred to the customer. Sales returns have not been significant.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

INCOME TAXES

Habitat is a nonprofit agency exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Habitat has been classified under Section 509(a)(2) of the Internal Revenue Code as a Publicly Supported Organization, not a private foundation, and qualifies for the 50% charitable contribution deduction for individual donors. Accordingly, federal income taxes are not provided for in the accompanying financial statements. Habitat did not have unrelated business income during the years ended June 30, 2017 and 2016.

Management has determined that there are no uncertain tax positions that would require recognition in the financial statements. If the Organization were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense, and penalties on any income tax would be reported as penalties. Management's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based on ongoing analysis of tax laws, regulations, and interpretations thereof, as well as other factors. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization's management believes it is no longer subject to income tax examinations for years prior to the year ended June 30, 2014.

3. MORTGAGE NOTES RECEIVABLE

Mortgage notes are noninterest, 15-year to 35-year term loans for homes sold to low-income families. The unamortized discount is the amount of the reduction necessary to record the notes at present value. Principal maturities on the mortgage notes receivable are as follows:

<u>Year ending June 30,</u>	<u>Maturities</u>
2017	\$ 71,446
2018	68,976
2019	67,825
2020	67,620
2021	66,515
Thereafter	<u>530,388</u>
Total	872,770
Less unamortized discount	<u>(465,344)</u>
Mortgage notes receivable, net	<u><u>\$ 407,426</u></u>

4. LINE OF CREDIT

Habitat maintains a line of credit of \$30,000 with a bank for short-term working capital needs, subject to renewal in August 2019. Interest is paid monthly at the Wall Street Journal US Prime Rate plus 2.0% with minimum interest rate of 5.5%. At June 30, 2017 and 2016, there were \$10,000 and \$29,250 borrowings against line of credit, respectively.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

5. NOTE PAYABLE

During the year ended June 30, 2017, Habitat secured a note payable for \$14,250 from a bank. The note is secured by a vehicle. The note is payable in monthly principal and interest payments of \$273, with interest at a fixed rate of 5.50% with a maturity date of August 2021. The note payable had an outstanding balance of \$12,146 as of June 30, 2017. (See Note 11.)

Annual maturities of note payable at June 30, 2017 are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2018	\$ 2,646
2019	2,821
2020	2,982
2021	3,154
2022	543
	<u>\$ 12,146</u>

6. CAPITAL LEASE OBLIGATIONS

During the year ended June 30, 2015, Habitat began leasing office equipment that is classified as a capital lease. The cost of the equipment under capital lease is included in the statement of financial position as property and equipment and totaled \$5,500. Accumulated amortization of the leased equipment as of June 30, 2017 and 2016 was \$2,475 and \$1,375, respectively. Amortization expense of \$1,100 is included in depreciation expense for the years ended June 30, 2017 and 2016.

The future minimum lease payments required under the capital lease and the present value of the net minimum lease payments as of June 30, 2017, are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2018	\$ 1,379
2019	1,379
2020	921
Total minimum lease payments	3,679
Less: Amount representing interest	<u>446</u>
Present value of net minimum lease payments	3,233
Less: Current maturities of capital lease obligations	<u>1,116</u>
Long-term capital lease obligations	<u>\$ 2,117</u>

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

7. OPERATING LEASE

Habitat has entered in to an operating lease agreement for retail space in Mooresville, Indiana from an unrelated third party for operations of a second ReStore, commencing in August 2015 through July 2020. Total expense under this operating lease was \$36,000 and \$33,000 for the years ended June 30, 2017 and 2016, respectively. Minimum annual rental payments required under this operating lease are as follows:

<u>Year ending June 30,</u>	<u>Amounts</u>
2018	\$ 36,000
2019	36,000
2020	36,000
2021	3,000
	<u>\$ 111,000</u>

8. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

During the year ended June 30, 2016, a permanent endowment was created to provide support for Habitat through the long-term growth of an endowment fund. The endowment was established by a \$33,000 transfer from Habitat (along with contributions from other donors) and is held at the Community Foundation of Morgan County, Inc. (the Foundation). Distributions from the endowment to Habitat are subject to the spending policies of the Foundation. The Foundation's spending policy is designed to take into account the real spending power of the endowment over time, while balancing the need for consistent spending to support the charitable purposes of the endowment. Based on the governing endowment agreement, the Board of Directors of Habitat may not request additional distributions outside the Foundation's normal spending policy. Habitat reports the fair value of an allocated portion of the endowment as beneficial interest in assets held by Community Foundation on the statement of financial position and is considered a permanently restricted net asset in the amount of \$35,984 and \$33,000 as of June 30, 2017 and 2016, respectively. Changes in the value of the endowment are reported as gains or losses in the statement of activities of \$2,984 and \$-0- for the years ended June 30, 2017 and 2016, respectively.

9. FAIR VALUE MEASUREMENTS

Fair value is defined as 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. Accounting standards set a framework for measuring fair value based on a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are not observable in the market and reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

Within the fair value hierarchy, the fair value measurement level of the asset or liability is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Beneficial interest in assets held by Community Foundation—Valued, as a practical expedient, at the fair value of Habitat's share of the Foundation's investment pool as of the measurement date, utilizing valuations provided by the investment funds. The Foundation values securities and other financial instruments on a fair value basis of accounting. The beneficial interest in assets held at the Foundation is not redeemable by Habitat as described in Note 8.

The following is a summary of assets held at fair value:

	Fair Value Measurement Inputs			Total
	Level 1	Level 2	Level 3	
<u>June 30, 2017</u>				
Beneficial interest in assts held at the Community Foundation of Morgan County, Inc.	\$ -0-	\$ -0-	\$ 35,984	\$ 35,984
<u>June 30, 2016</u>				
Beneficial interest in assts held at the Community Foundation of Morgan County, Inc.	\$ -0-	\$ -0-	\$ 33,000	\$ 33,000

The following table represents a reconciliation of the activities for Level 3 assets:

Balance at July 1, 2015	\$ -0-
Amounts invested	<u>33,000</u>
Balance at June 30, 2016	33,000
Share of allocated gains	<u>2,984</u>
Balance at June 30, 2017	<u>\$ 35,984</u>

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2016

10. CONCENTRATION OF CREDIT RISK AND CONTINGENCIES

Habitat maintains cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Habitat believes it is not exposed to any significant credit risk on cash and cash equivalents.

As of and for the year ended June 30, 2017, approximately 15% of support and revenue was from one source. As of and for the year ended June 30, 2016, approximately 12% of support and revenue and 100% of grants receivable was from one source.

11. NONCASH INVESTING AND FINANCIAL ACTIVITIES

During the year ended June 30, 2017, Habitat refinanced \$14,250 on the line of credit into a long-term note payable (see Note 5).

12. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, *Subsequent Events*, Habitat has evaluated subsequent events through August 29, 2017, which is the date these financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure in the financial statements.

