

HABITAT FOR HUMANITY VAIL VALLEY, INC.
FINANCIAL STATEMENTS
DECEMBER 31, 2016
(With Comparative Totals for December 31, 2015)



CONTENTS

<u>Independent Auditors' Report</u>	1-2
<u>Financial Statements</u>	
Statement of Financial Position	3-4
Statement of Activities	5
Statement of Functional Expenses	6
Statement of Cash Flows	7
Notes to Financial Statements	8-17

INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity Vail Valley, Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity Vail Valley, Inc., which comprise the statement of financial position as of December 31, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Vail Valley, Inc., as of December 31, 2016, 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 Vail Valley, Inc.'s 2015 financial statements, and we expressed an unmodified audit opinion on those financial statements in our report dated June 21, 2016. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2015, is consistent, in all material respects, with the audited financial statements from which it has been derived.



Bauerle and Company, P.C.
Denver, Colorado

June 20, 2017

HABITAT FOR HUMANITY VAIL VALLEY, INC.

**STATEMENT OF FINANCIAL POSITION
DECEMBER 31, 2016
(With Comparative Totals as of December 31, 2015)**

ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT ASSETS		
Cash - Unrestricted	\$ 556,567	\$ 677,686
Cash - Restricted	70,154	75,558
Total Cash	626,721	753,244
Accounts Receivable	916	1,908
Grants Receivable	12,000	-
Current Portion of Promises to Give	314,252	387,067
Current Portion of Mortgages Receivable - Net of Discount to Net Present Value	28,614	28,709
Prepaid Expenses	17,531	10,946
Inventory - ReStore	9,015	5,233
Land Held for Development	352,108	504,330
Construction-in-Progress	1,219,915	1,258,120
Total Current Assets	<u>2,581,072</u>	<u>2,949,557</u>
PROPERTY AND EQUIPMENT - AT COST		
Leasehold Improvements	50,461	50,461
Vehicles	64,066	64,066
Software	15,860	15,860
Equipment and Furniture	57,875	48,839
	188,262	179,226
Less: Accumulated Depreciation	155,710	147,309
Property and Equipment - Net	<u>32,552</u>	<u>31,917</u>
LONG-TERM ASSETS		
Deposits	14,150	14,150
Long-Term Portion of Promises to Give	283,147	505,000
Long-Term Portion of Mortgages Receivable - Net of Discount to Net Present Value	1,030,488	912,865
Total Long-Term Assets	<u>1,327,785</u>	<u>1,432,015</u>
TOTAL ASSETS	<u>\$ 3,941,409</u>	<u>\$ 4,413,489</u>

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

HABITAT FOR HUMANITY VAIL VALLEY, INC.

STATEMENT OF FINANCIAL POSITION (CONTINUED)

DECEMBER 31, 2016

(With Comparative Totals as of December 31, 2015)

LIABILITIES AND NET ASSETS

	<u>2016</u>	<u>2015</u>
CURRENT LIABILITIES		
Accounts Payable	\$ 40,068	\$ 75,792
Homeowner Escrow Deposits	68,135	65,809
Notes Payable - Due Within One Year	24,531	23,386
Deferred Revenue	24,199	17,834
Other Current Liabilities	<u>18,268</u>	<u>51,096</u>
Total Current Liabilities	175,201	233,917
LONG-TERM LIABILITIES		
Notes Payable - Due After One Year	<u>301,076</u>	<u>325,410</u>
Total Liabilities	<u>476,277</u>	<u>559,327</u>
NET ASSETS		
Unrestricted:		
Unrestricted	2,785,767	2,853,341
Board Designated	<u>81,966</u>	<u>103,173</u>
Total Unrestricted Net Assets	2,867,733	2,956,514
Temporarily Restricted	<u>597,399</u>	<u>897,648</u>
Total Net Assets	<u>3,465,132</u>	<u>3,854,162</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 3,941,409</u>	<u>\$ 4,413,489</u>

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

HABITAT FOR HUMANITY VAIL VALLEY, INC.

**STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total 2016</u>	<u>Total 2015</u>
REVENUES AND SUPPORT				
Operating Revenues:				
Sale to Homeowners	\$ 1,070,000	\$ -	\$ 1,070,000	\$ 855,000
ReStore Revenue	425,300	-	425,300	604,481
Mortgage Discount Amortization	68,895	-	68,895	75,393
Discount Earned on Sales of Mortgage Loans Receivable	-	-	-	930,252
Shared Appreciation Income	-	-	-	33,807
(Loss) on Sale of Mortgage Loans	(184,552)	-	(184,552)	(545,483)
Other Program Income	36,153	-	36,153	-
Interest Income	236	-	236	376
Total Operating Revenue	<u>1,416,032</u>	<u>-</u>	<u>1,416,032</u>	<u>1,953,826</u>
Support:				
Contributions and Grants	459,685	101,399	561,084	1,246,996
Donated Services and Materials	26,463	-	26,463	34,205
Special Events (Net of Direct Expenses of \$69,430 and \$69,383, Respectively)	101,008	-	101,008	64,428
Total Support	<u>587,156</u>	<u>101,399</u>	<u>688,555</u>	<u>1,345,629</u>
Net Assets Released from Restriction	<u>401,648</u>	<u>(401,648)</u>	<u>-</u>	<u>-</u>
TOTAL REVENUES AND SUPPORT	<u>2,404,836</u>	<u>(300,249)</u>	<u>2,104,587</u>	<u>3,299,455</u>
EXPENSES:				
Program Services	1,702,667	-	1,702,667	1,785,576
ReStore	487,678	-	487,678	512,584
Fundraising	172,407	-	172,407	150,395
Management and General	130,865	-	130,865	106,246
TOTAL EXPENSES	<u>2,493,617</u>	<u>-</u>	<u>2,493,617</u>	<u>2,554,801</u>
INCREASE (DECREASE) IN NET ASSETS	(88,781)	(300,249)	(389,030)	744,654
NET ASSETS - BEGINNING OF YEAR	<u>2,956,514</u>	<u>897,648</u>	<u>3,854,162</u>	<u>3,109,508</u>
NET ASSETS - END OF YEAR	<u>\$ 2,867,733</u>	<u>\$ 597,399</u>	<u>\$ 3,465,132</u>	<u>\$ 3,854,162</u>

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

HABITAT FOR HUMANITY VAIL VALLEY, INC.

**STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)**

	<u>Program Services</u>	<u>ReStore</u>	<u>Fundraising</u>	<u>Management and General</u>	<u>Total 2016</u>	<u>Total 2015</u>
Expenses:						
Advertising, Printing, and Publication	\$ 7,627	\$ 15,834	\$ 2,934	\$ 1,173	\$ 27,568	\$ 36,718
Bank and Credit Card Fees	-	7,063	4,369	1,456	12,888	18,452
Conferences, Meals, and Entertainment	4,898	2,478	653	980	9,009	13,011
Construction Costs	1,107,923	-	-	-	1,107,923	918,084
Contract Labor	10,760	1,734	3,587	-	16,081	38,812
Depreciation	3,331	3,900	1,125	45	8,401	8,835
Discount to Net Present Value	191,836	-	-	-	191,836	392,311
Donor and Volunteer Recognition	13,048	3,332	2,447	816	19,643	23,074
Employee Benefits	19,647	29,129	13,617	8,428	70,821	70,780
Fundraising Expense	-	-	3,715	-	3,715	-
Insurance	10,167	11,600	-	1,794	23,561	22,734
Interest Expense	47,689	-	-	-	47,689	51,306
Mortgage Fees	6,647	-	-	-	6,647	5,720
Office Expenses	36,706	6,929	2,159	4,318	50,112	66,072
Other Expenses	-	-	-	-	-	9,584
Payroll Taxes	14,642	21,708	10,148	6,281	52,779	46,934
Professional Fees	-	9,680	-	26,462	36,142	48,077
Rent and Property Taxes	16,893	66,650	1,571	1,179	86,293	86,202
Salaries	181,534	269,139	125,812	77,869	654,354	621,985
Taxes and Licenses	-	-	-	-	-	1,176
Telephone and Utilities	2,987	22,076	161	64	25,288	29,948
Tithe	21,000	-	-	-	21,000	23,400
Vehicles Expenses	5,332	16,426	109	-	21,867	21,586
TOTAL EXPENSES	<u>\$ 1,702,667</u>	<u>\$ 487,678</u>	<u>\$ 172,407</u>	<u>\$ 130,865</u>	<u>\$ 2,493,617</u>	<u>\$ 2,554,801</u>

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

HABITAT FOR HUMANITY VAIL VALLEY, INC.

**STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2016
(With Comparative Totals for the Year Ended December 31, 2015)**

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Increase (Decrease) in Net Assets	\$ (389,030)	\$ 744,654
Adjustments to Reconcile Change in Net Assets to Net Cash (Used In) Operating Activities:		
Depreciation Expense	8,401	8,835
Mortgage Loans Issued - Net of Discount to Net Present Value	(744,313)	(327,950)
Amortization of Discount on Mortgage Loans	(68,895)	(75,393)
Discount Earned on Sales of Mortgage Loans Receivable	-	(930,252)
Loss on Sale of Mortgage Loans	184,552	545,483
Changes in Operating Assets and Liabilities:		
(Increase) Decrease in:		
Accounts Receivable	992	42,905
Grants Receivable	(12,000)	50,000
Promises to Give	294,668	(604,220)
Inventory - Restore	(3,782)	(5,233)
Land Held for Development	152,222	(207,298)
Construction-in-Progress	38,205	(281,276)
Prepaid Expenses	(6,585)	(4,103)
Deposits	-	(4,000)
Increase (Decrease) in:		
Accounts Payable	(35,724)	22,506
Homeowner Escrow Deposits	2,326	12,920
Deferred Revenue	6,365	14,939
Other Current Liabilities	(32,828)	(8,801)
Net Cash (Used In) Operating Activities	<u>(605,426)</u>	<u>(1,006,284)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
(Purchase of) Property and Equipment	(9,036)	(5,724)
Proceeds from Sale of Mortgages	422,942	1,289,938
Mortgage Payments Received	88,186	161,171
Net Cash Provided By Investing Activities	<u>502,092</u>	<u>1,445,385</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
(Payments on) Notes Payable	(23,189)	(21,645)
NET INCREASE (DECREASE) IN CASH	(126,523)	417,456
CASH AT BEGINNING OF YEAR	<u>753,244</u>	<u>335,788</u>
CASH AT END OF YEAR	<u>\$ 626,721</u>	<u>\$ 753,244</u>
<u>SUPPLEMENTAL DISCLOSURE:</u>		
Interest Paid	<u>\$ 47,689</u>	<u>\$ 51,306</u>

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

HABITAT FOR HUMANITY VAIL VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Comparative Totals for December 31, 2015)

1 Summary of Significant Accounting Policies.

Nature of Organization. Habitat for Humanity Vail Valley, Inc. (the "Organization") is a non-profit, tax-exempt organization formed on April 1, 1995 to construct and renovate homes with and for people in need. The Organization is exempt under Section 501(c)(3) of the Internal Revenue Code of 1954, as amended; and accordingly, a provision for income taxes has not been made. The Internal Revenue Service has determined the Organization is not a private foundation.

The Organization operates a Habitat for Humanity ReStore (the "ReStore"), a retail operation, where home furnishings, appliances, and other miscellaneous items are donated and then sold to the community at reduced prices. Revenue is recognized by the Organization at the time the donated goods are sold; therefore, no value for the donated ReStore inventory is included in these financial statements. The ReStore is operated with the sole purpose of generating funds to assist the Organization's mission of building houses.

In May 2014, the Board of Directors amended and restated its Bylaws, changing the name of the organization to Habitat for Humanity Vail Valley, Inc. The Articles of Amendment were filed with the Colorado Secretary of State and were accepted in May 2014, officially changing the Organization's name.

Basis of Accounting. The financial statements of the Organization are prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other assets and liabilities.

Comparative Financial Information. The financial statements include certain prior-year summarized comparative information in total, but not by net asset class. The prior year presentation does not include sufficient detail to constitute a presentation in conformity with Generally Accepted Accounting Principles. Accordingly, such information should be read in conjunction with the audited financial statements for the year ended December 31, 2015, from which the summarized information was derived.

Financial Statement Presentation. Financial statement presentation follows the requirements under Generally Accepted Accounting Principles for Not-for-Profit Organizations. Under this presentation the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted net assets. Unrestricted net assets come primarily from donations, grants, ReStore revenue, sales to homeowners, and contributions and are used by the Organization for program or supporting services. Temporarily restricted net assets are those net assets whose use has been limited by donors to later periods of time, after specified dates, or to specified purposes. Permanently restricted net assets must be maintained in perpetuity.

HABITAT FOR HUMANITY VAIL VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Comparative Totals for December 31, 2015)

1 Summary of Significant Accounting Policies. (Continued)

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 certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Fair Value of Financial Instruments. The Organization's financial instruments include cash and cash equivalents, receivables, accounts payable, and short-term borrowings. The fair values of these financial instruments approximate their carrying amounts based on current market indicators, such as prevailing interest rates and their nearness to maturity.

Income Tax Status. The Organization is exempt from Federal income tax under Section 501(c)(3) of the Internal Revenue Code. However, income from activities not directly related to the Organization's tax exempt purpose is subject to taxation as unrelated business income. In addition, the Organization qualifies for the charitable contribution deduction under Section 170(b)(1)(A)(ii) and has been classified as an organization other than a private foundation under Section 509(a)(1).

In accordance with Generally Accepted Accounting Principles, an entity is required to disclose any material uncertain tax positions that management believes does not meet a "more-likely-than-not" standard of being sustained under an income tax audit, and to record a liability for any such taxes including penalties and interest. Management of the Organization has not identified any uncertain tax positions that require the recording of a liability mentioned above or further disclosure.

Cash Equivalents. For purposes of the Statement of Cash Flows, the Organization considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Inventory – ReStore. ReStore inventory consists of purchased items and is stated at the lower of cost or market determined by the first-in, first-out method.

Property and Equipment. Property and equipment are carried at cost or fair-market value at date of contribution. Property and equipment acquired with an estimated useful life in excess of one year is capitalized and depreciated using the straight-line method over the estimated useful lives of the assets. Donations of assets are recorded at estimated fair market value. Long-lived assets are recorded without implying a time restriction, therefore increasing unrestricted net assets at the fair market value in the year which the assets are received.

HABITAT FOR HUMANITY VAIL VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Comparative Totals for December 31, 2015)

1 Summary of Significant Accounting Policies. (Continued)

Mortgages Receivable. The Organization constructs homes to be sold with interest-free mortgages. These mortgages are discounted based upon the prevailing market interest rates at the inception of the mortgage. The rates determined by the Internal Revenue Service used to discount the mortgages funded in 2016 and 2015, were 7.48% and 7.51%, respectively. The discounts are charged directly to operations at the inception of the mortgage and amortized over the life of the mortgage. From time to time, the Organization may sell mortgages rather than hold them to term. In this situation, the Organization discounts the mortgage based upon the estimated time they will hold the mortgage before sale.

Construction-in-Progress. All land, material, and salary costs incurred in constructing a home are capitalized. These costs include donated goods and services associated with the individual project. These accumulated costs are not subject to depreciation.

Homeowner Escrows. The Organization handles the normal processing and collection of homeowner's mortgage payments, including future mortgage payment, property tax, and insurance escrows. Funds received for the individual escrows are maintained in a separate bank account and are reflected as part of Restricted Cash. The balance is also reflected as a liability in Other Current Liabilities.

Recognition of Revenue and Support. The Organization records unconditional contributions in accordance with the requirements of Generally Accepted Accounting Principles for Not-for-Profit Organizations. 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 Statement of Activities as net assets released from restrictions.

Conditional promises to give are recognized as support when the conditions on which they depend are substantially met. Assets received with a conditional promise for use of those assets are accounted for as refundable advances, until the conditions on which they depend are substantially met.

Donations of assets are recorded at estimated fair market value.

HABITAT FOR HUMANITY VAIL VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Comparative Totals for December 31, 2015)

1 Summary of Significant Accounting Policies. (Continued)

Donated Services. Donated services are recognized as contributions in accordance with Generally Accepted Accounting Principles for Not-for-Profit Organizations, 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 the Organization. During the years ended December 31, 2016 and 2015, the Organization received and recognized \$26,463 and \$16,652, respectively, of donated professional services. Volunteers also provided assistance with specific programs and fund-raising events throughout the year that were not recognized as contributions in the financial statements because the recognition criteria was not met.

Functional Allocation of Expenses. The costs of providing various programs and other activities have been summarized on a functional basis in the Statement of Functional Expenses. Program activities are those that are conducted in accordance with the Organization's nature of operations and certain necessary costs. Management and general activities are those that are not identifiable with a single program or fundraising activity, but that are indispensable to the conduct of those activities and to an organization's existence. Fundraising activities involve inducing potential donors to contribute money, securities, services, materials, facilities, other assets, or time. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses by function have been allocated based upon management's estimates of the time each employee spends working in each category or the percentage of office space devoted to each category.

Advertising. The Organization uses advertising to promote among the audience it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled \$27,568 and \$36,718, respectively, for the years ended December 31, 2016 and 2015.

Subsequent Events. In preparing its financial statements, the Organization has evaluated subsequent events through June 20, 2017, which is the date the financial statements were available to be issued.

Reclassifications. Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the current year.

HABITAT FOR HUMANITY VAIL VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Comparative Totals for December 31, 2015)

2 Concentrations of Credit Risk.

Financial instruments that potentially subject the Organization to credit risk consist primarily of the following:

Cash: From time to time, the Organization may maintain cash balances in a financial institution in excess of the FDIC insured limit.

Promises to Give: At December 31, 2016 and 2015, the Organization had one promise to give that accounted for 84% and 95%, respectively, of the outstanding unconditional promises to give. Management expects this promise to give to be paid-in-full in accordance with respective payment schedules established by the donor.

3 Promises to Give.

Unconditional Promises to Give

Unconditional Promises to Give at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Receivable in Less than One Year	\$ 314,252	\$ 387,067
Receivable in One to Five Years	<u>283,147</u>	<u>505,000</u>
Total Unconditional Promises to Give	<u>\$ 597,399</u>	<u>\$ 892,067</u>

Conditional Promises to Give

During the year ended December 31, 2016, the Organization was awarded a conditional promise to give in the amount of \$75,000 which is payable in annual installments from 2016 through 2020. The conditional promise to give will be recognized into revenue upon the conditions being substantially met. During the year ended December 31, 2016, the Organization received and recognized into revenue \$25,000 of the conditional promise to give. The remaining conditional promise to give will be received as follows if the conditions are met:

2017	\$ 20,000
2018	15,000
2019	10,000
2020	<u>5,000</u>
	<u>\$ 50,000</u>

HABITAT FOR HUMANITY VAIL VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(With Comparative Totals for December 31, 2015)**

4 Mortgages Receivable.

Mortgages Receivable at December 31, 2016 and 2015, are as follows:

	<u>2016</u>	<u>2015</u>
Receivable in Less than One Year	\$ 100,525	\$ 86,153
Receivable in One to Five Years	464,632	412,458
Receivable in More than Five Years	<u>1,422,637</u>	<u>1,246,804</u>
Total Mortgages Receivable	1,987,794	1,745,415
Less: Discount to Net Present Value Using Habitat for Humanity International Rates	<u>928,692</u>	<u>803,841</u>
Net Mortgages Receivable	<u>\$ 1,059,102</u>	<u>\$ 941,574</u>

At December 31, 2016 and 2015, the Organization had 17 and 24, respectively, of outstanding mortgages receivable, with applicable discount rates ranging from 7.39% to 8.53%. The discount rates are set by Habitat for Humanity International based on the annual simple average of the rates published by the Internal Revenue Service under 2010-5 section 42(B)(2) for buildings placed into service during the period. The rate in effect at the time the loan is made is the rate that is used to discount the mortgage. During the years ended December 31, 2016 and 2015, the Organization funded six and five new mortgages, respectively, in the amounts of \$936,149 and \$721,261, respectively. When the mortgages are funded, the Discount to Net Present Value is calculated and expensed.

5 Property and Equipment.

Property and equipment, net of accumulated depreciation, consisted of the following at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Leasehold Improvements	\$ 12,108	\$ 13,359
Vehicles	1,750	2,957
Software	-	29
Equipment and Furniture	<u>18,694</u>	<u>15,572</u>
	<u>\$ 32,552</u>	<u>\$ 31,917</u>

Depreciation expense charged to operations for the years ended December 31, 2016 and 2015, was \$8,401 and \$8,835, respectively.

HABITAT FOR HUMANITY VAIL VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Comparative Totals for December 31, 2015)

6 Lines-of-Credit.

The Organization has negotiated a \$75,000 line-of-credit with FirstBank of Vail that is secured by deposit accounts. The line-of-credit bears interest at 5.75% through March 1, 2017. Subsequent to this date, the interest rate becomes variable at a rate equal to the Wall Street Journal prime rate plus 2.0%, with a floor rate of 4.75%. The line-of-credit matures on December 25, 2017. There was no outstanding balance on this line-of-credit at December 31, 2016 and 2015.

The Organization has negotiated a \$100,000 demand line-of-credit with U.S. Bank, N.A. The line-of-credit is secured by business assets, bears interest at the Wall Street Journal prime rate plus 1.0% and is due on demand. There was no outstanding balance on this line-of-credit at December 31, 2016 and 2015.

7 Letter-of-Credit and Infrastructure Commitment.

In November 2015, the Organization entered into an agreement to purchase a plot of land, Parcel 5-A Stratton Flats Planned Unit Development Filing 1 in Gypsum, Colorado, to be used for future housing construction. Under the terms of the agreement, the Organization is required to make certain infrastructure improvements to the land with estimated total costs of \$95,583. In September 2015, the Organization obtained an irrevocable letter-of-credit in the amount of \$95,583. The letter-of-credit bore interest at 4.25% through December 23, 2015; at which time the interest rate became variable at a rate equal to the Wall Street Journal prime rate plus 1.0% through maturity. The letter-of-credit matured on December 23, 2016.

8 Notes Payable.

The following is a summary of the notes payable at December 31, 2016 and 2015:

	<u>2016</u>	<u>2015</u>
Alpine Bank (payable in monthly installments of \$370, including interest at 4.75%; secured by a mortgage; with a balloon payment due on November 21, 2021)	\$ 64,452	\$ 65,749
Alpine Bank (payable in monthly installments of \$370, including interest at 4.75%; secured by a mortgage; with a balloon payment due on December 7, 2021)	64,532	65,953

HABITAT FOR HUMANITY VAIL VALLEY, INC.

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2016
(With Comparative Totals for December 31, 2015)**

8 Notes Payable. (Continued)

	<u>2016</u>	<u>2015</u>
ANB Bank (5 notes, payable in monthly installments from \$431 to \$685, including interest from 5.10% to 5.25%; secured by a mortgage; due in 2024)	<u>\$ 196,623</u>	<u>\$ 217,094</u>
	325,607	348,796
Less: Current Maturities Included in Current Liabilities	<u>24,531</u>	<u>23,386</u>
Notes Payable – Due After One Year	<u>\$ 301,076</u>	<u>\$ 325,410</u>

The following are future maturities of notes payable for the years ending December 31:

2017	\$ 24,531
2018	25,921
2019	27,290
2020	28,731
2021	143,999
Thereafter	<u>75,135</u>
	<u>\$ 325,607</u>

9 Operating Lease Commitments.

The Organization leases office space and commercial retail space under non-cancelable operating leases. The minimum future lease payments for years ending December 31, are as follows:

2017	\$ 76,517
2018	75,830
2019	60,453
2020	1,700
2021	<u>708</u>
	<u>\$ 215,208</u>

For the years ended December 31, 2016 and 2015, rent expense was \$72,726 and \$83,554, respectively.

HABITAT FOR HUMANITY VAIL VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Comparative Totals for December 31, 2015)

10 Temporarily Restricted Net Assets.

The Organization receives contributions from various organizations and individuals, which are temporarily restricted. At December 31, 2016 and 2015, temporarily restricted net assets were restricted to the following:

	<u>2016</u>	<u>2015</u>
Time Restrictions	\$ 572,399	\$ 892,067
Land Acquisition	25,000	-
International Building Fund	-	5,581
	<u>\$ 597,399</u>	<u>\$ 897,648</u>

11 Employee Benefit Plan.

On August 20, 2012, the Organization adopted a retirement plan covering substantially all employees under Section 403(b) of the Internal Revenue Code. In accordance with the plan, the Organization may provide matching contributions in an amount determined by management. The Organization contributed \$34,862 and \$8,286, respectively, to the plan during the years ended December 31, 2016 and 2015.

12 Loan Sales to FirstBank.

On September 2, 2016, the Organization sold its interest in four mortgage loans to FirstBank and received \$422,942 in cash proceeds. For the year ended December 31, 2016, the Organization recognized a loss on sale of \$184,552 resulting from the sale. The Organization retained servicing rights for these loans.

On June 4, 2015, the Organization sold its interest in nine mortgage loans to FirstBank and received \$913,870 in cash proceeds. Additionally, on December 4, 2015, the Organization sold its interest in four mortgage loans to FirstBank and received \$376,068 in cash proceeds. For the year ended December 31, 2015, the Organization recognized a loss on sale of \$545,483 resulting from the sales and recognized the unamortized discount on the sold loans in the amount of \$930,252 into income. The Organization retained servicing rights for these loans.

Under the terms of the agreement with FirstBank, in the event the mortgagor defaults on the payment of a loan and the default is not cured within ninety days, the Organization 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. As of December 31, 2016 and 2015, no liability has been recorded for this substitution provision because the Organization believes the fair value of each underlying mortgage asset exceeds the outstanding loan amount.

HABITAT FOR HUMANITY VAIL VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2016

(With Comparative Totals for December 31, 2015)

13 Transactions with Habitat International and Habitat for Humanity of Colorado.

The Organization 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, 2016 and 2015, \$21,000 and \$23,400 were contributed, respectively, to Habitat International.

The Organization is a sub-recipient of certain government grants received directly by Habitat for Humanity of Colorado, an affiliated organization. During the years ended December 31, 2016 and 2015, the Organization recognized \$50,000 of grant revenue from Habitat for Humanity of Colorado, each year, which is included in Contributions and Grants on the Statement of Activities.