# DuPage Habitat for Humanity, Inc. and Subsidiaries
## Audit Report
## For the Year Ended June 30, 2015

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## INDEPENDENT AUDITOR'S REPORT

Board of Directors
DuPage Habitat for Humanity, Inc.
and Subsidiaries
Wheaton, Illinois

We have audited the accompanying consolidated financial statements of **DuPage Habitat for Humanity, Inc. and Subsidiaries**, which comprise the consolidated statement of financial position as of June 30, 2015, and the related consolidated 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 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.

### Auditor's 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 auditor's 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 auditor considers 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 **DuPage Habitat for Humanity, Inc. and Subsidiaries** as of June 30, 2015, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Report on Summarized Comparative Information**

We have previously audited the DuPage Habitat for Humanity, Inc. and Subsidiaries 2014 consolidated financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated December 10, 2014. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2014 is consistent, in all material respects, with the audited financial statements from which it has been derived.

Selden Fox, Ltd.

January 22, 2016

## DuPage Habitat For Humanity, Inc. and Subsidiaries
## Consolidated Statement of Financial Position
## June 30, 2015
(With Comparative Totals for 2014)

| Assets | 2015 | 2014 |
|---|---|---|
| Current assets: | | |
| Cash and cash equivalents | $ 260,020 | $ 350,937 |
| Accounts receivable | 8,947 | 16,488 |
| Government grants receivable | 79,797 | 104,658 |
| Pledges receivable, current portion | 366,211 | 103,705 |
| Mortgages receivable, current | 84,797 | 80,995 |
| Inventories - land and construction in progress | 1,286,965 | 1,354,807 |
| Inventory - ReStore | 61,579 | 51,191 |
| Prepaid expenses | 15,696 | 1,063 |
| Deposits and other assets | 69,774 | 68,702 |
| **Total current assets** | 2,233,786 | 2,132,546 |
| Property and equipment: | | |
| Office equipment and furniture | 12,932 | 12,932 |
| ReStore equipment | 70,041 | 70,041 |
| Software | 57,840 | 57,840 |
| | 140,813 | 140,813 |
| Less accumulated depreciation | (124,986) | (100,181) |
| **Total property and equipment, net** | 15,827 | 40,632 |
| Other assets: | | |
| Investment in limited liability company | 6,649 | 6,912 |
| Mortgages receivable, noncurrent, net of present value discount | 1,511,044 | 1,436,760 |
| Pledges receivable, noncurrent | 14,510 | 9,804 |
| **Total other assets** | 1,532,203 | 1,453,476 |
| **Total assets** | $ 3,781,816 | $ 3,626,654 |

See accompanying notes and independent auditor's report.



| Liabilities and Net Assets | 2015 | 2014 |
|---|---|---|
| Liabilities: | | |
| Current liabilities: | | |
| Accounts payable | $ 145,520 | $ 119,737 |
| Accrued expenses | 83,902 | 46,790 |
| Escrow and closing funds held | 11,404 | - |
| Deferred rent | 7,053 | 11,697 |
| Deferred income | 1,863 | 621 |
| Notes payable, current | 306,792 | 305,277 |
| **Total current liabilities** | 556,534 | 484,122 |
| Long-term liabilities - notes payable, net of current portion | 80,380 | 117,699 |
| **Total liabilities** | 636,914 | 601,821 |
| Net assets: | | |
| Temporarily restricted | 831,821 | 584,129 |
| Unrestricted | 2,313,081 | 2,440,704 |
| **Total net assets** | 3,144,902 | 3,024,833 |
| **Total liabilities and net assets** | $ 3,781,816 | $ 3,626,654 |

## DuPage Habitat For Humanity, Inc. and Subsidiaries
## Consolidated Statement of Activities
## For the Year Ending June 30, 2015
(With Comparative Totals for 2014)

| | 2015 Unrestricted | 2015 Temporarily Restricted | 2015 Total | 2014 Total |
|---|---|---|---|---|
| Changes in unrestricted net assets: | | | | |
| Public support and revenue: | | | | |
| Federal and local government grants | $ 3,099 | $ - | **$ 3,099** | $ 805,159 |
| Illinois affordable housing tax credits | 64,812 | - | **64,812** | - |
| Contributions | 591,534 | 160,367 | **751,901** | 390,565 |
| Homes sales, net of present value discount | 292,206 | - | **292,206** | 348,764 |
| Mortgage loan discount amortization | 122,547 | - | **122,547** | 104,074 |
| ReStore operations | 845,378 | - | **845,378** | 681,488 |
| In-kind contributions and donated services | 79,328 | 185,400 | **264,728** | 270,467 |
| Special events: | | | | |
| Contributions | 59,617 | 7,500 | **67,117** | 68,987 |
| Ticket sales | 12,563 | - | **12,563** | 22,815 |
| In-kind contributions and donated services | 773 | 38,706 | **39,479** | 54,922 |
| Less cost of direct benefit to donors | (17,731) | - | **(17,731)** | (14,203) |
| Miscellaneous income | 351 | - | **351** | 609 |
| Equity in loss of limited liability company | (263) | - | **(263)** | (1,848) |
| Loss on sale of assets | - | - | **-** | (28,755) |
| Net assets released from restrictions | 144,281 | (144,281) | **-** | - |
| **Total public support and revenue** | 2,198,495 | 247,692 | **2,446,187** | 2,703,044 |
| Expenses: | | | | |
| Program services: | | | | |
| Homebuilding | 1,319,580 | - | **1,319,580** | 2,119,414 |
| ReStore | 531,597 | - | **531,597** | 463,544 |
| Management and general | 243,391 | - | **243,391** | 252,829 |
| Fund-raising | 231,550 | - | **231,550** | 283,212 |
| **Total expenses** | 2,326,118 | - | **2,326,118** | 3,118,999 |
| **Change in net assets** | (127,623) | 247,692 | **120,069** | (415,955) |
| Net assets, beginning of the year | 2,440,704 | 584,129 | **3,024,833** | 3,440,788 |
| Net assets, end of the year | $ 2,313,081 | $ 831,821 | **$ 3,144,902** | $ 3,024,833 |

See accompanying notes and independent auditor's report.

## DuPage Habitat For Humanity, Inc. and Subsidiaries
## Consolidated Statement of Functional Expenses
### For the Year Ending June 30, 2015
(With Comparative Totals for 2014)

| | 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Program Services | | | | | |
| | Homebuilding | ReStore | Management and General | Fund-raising | **Total** | 2014 Total |
| Construction costs - houses sold | $ 632,840 | $ - | $ - | $ - | **$ 632,840** | $ 1,673,427 |
| Salaries and wages | 302,072 | 228,271 | 107,267 | 104,330 | **741,940** | 617,652 |
| Payroll taxes and benefits | 60,702 | 35,742 | 22,843 | 14,288 | **133,575** | 119,418 |
| Professional fees | 16,868 | - | 29,691 | 28,780 | **75,339** | 51,155 |
| Home building related expenses | 128,362 | - | 603 | - | **128,965** | 77,942 |
| Tithing to Habitat International | 22,500 | - | - | - | **22,500** | 13,500 |
| Printing and publications | - | 374 | 4,017 | 12,706 | **17,097** | 5,893 |
| Postage and shipping | 86 | - | 1,691 | 430 | **2,207** | 2,257 |
| Supplies and software purchases | - | 11,235 | 3,180 | 10,931 | **25,346** | 7,727 |
| Repairs and maintenance | 42,527 | 6,332 | 207 | - | **49,066** | - |
| Rent | 794 | 193,793 | 24,000 | - | **218,587** | 206,541 |
| Donated facilities | 6,000 | - | - | - | **6,000** | 7,200 |
| Telephone | 327 | 3,205 | 4,507 | 130 | **8,169** | 4,644 |
| Donor development | - | (630) | - | 51,559 | **50,929** | 97,281 |
| Insurance | 32,549 | 12,809 | 11,496 | 260 | **57,114** | 67,315 |
| Travel and entertainment | 15,152 | 9,122 | 9,084 | 1,193 | **34,551** | 16,949 |
| Bank charges and other fees | - | 7,689 | 6,849 | - | **14,538** | 9,680 |
| Education and conferences | 235 | - | 4,462 | - | **4,697** | 2,262 |
| Equipment rental | - | - | - | - | **-** | 6,537 |
| Office equipment purchases | 7,074 | 5,338 | - | - | **12,412** | - |
| Real estate tax | 26,122 | - | - | - | **26,122** | 11,885 |
| Interest expense | 7,018 | - | 8,566 | - | **15,584** | 17,852 |
| Reduction of in-kind donations | 12,105 | - | - | - | **12,105** | 50,000 |
| Miscellaneous | 4,891 | 2,737 | 3,572 | 430 | **11,630** | 20,734 |
| Depreciation | 1,356 | 15,580 | 1,356 | 6,513 | **24,805** | 31,148 |
| | $ 1,319,580 | $ 531,597 | $ 243,391 | $ 231,550 | **$ 2,326,118** | $ 3,118,999 |

See accompanying notes and independent auditor's report.

**DuPage Habitat For Humanity, Inc. and Subsidiaries**
**Consolidated Statement of Cash Flows**
**For the Year Ending June 30, 2015**
(With Comparative Totals for 2014)

| | **2015** | 2014 |
|---|---|---|
| Cash flows from operating activities: | | |
| Change in net assets | $ **120,069** | $ (415,955) |
| Adjustments to reconcile change in net assets to net cash from operating activities: | | |
| Depreciation | **24,805** | 31,148 |
| Loss on sale of assets | **-** | 28,755 |
| Mortgage loan discount amortization | **(122,547)** | (104,074) |
| Pledges received | **(306,411)** | (108,700) |
| Payments received on pledges | **212,200** | 128,577 |
| In-kind pledges received | **(185,400)** | - |
| Change in discount on pledges receivable | **294** | (434) |
| Reduction of in-kind donations - bad debt | **12,105** | 50,000 |
| Changes in ReStore inventory for sale | **(10,388)** | (6,473) |
| Equity in loss of limited liability company | **263** | 1,848 |
| Present value on mortgages issued for home sales | **(201,964)** | (339,765) |
| Cash from other operating activities: | | |
| Accounts receivable | **7,541** | 12,341 |
| Grants receivable | **24,861** | (56,766) |
| Home building related inventory | **67,842** | 633,764 |
| Prepaids and other current assets | **(15,705)** | 24,411 |
| Accounts payable and accrued expenses | **62,895** | (95,923) |
| Escrow and closing funds held | **11,404** | - |
| Deferred rent | **(4,644)** | (5,865) |
| Deferred income | **1,242** | (15,999) |
| **Net cash from operating activities** | **(301,538)** | (239,110) |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | **-** | (3,015) |
| Principal repayments on mortgage receivables | **246,425** | 191,555 |
| **Net cash from investing activities** | **246,425** | 188,540 |
| Cash flows from financing activities - payments on notes payable | **(35,804)** | (69,559) |
| **Net change in cash** | **(90,917)** | (120,129) |
| Cash and cash equivalents, beginning of the year | **350,937** | 471,066 |
| Cash and cash equivalents, end of the year | $ **260,020** | $ 350,937 |

See accompanying notes and independent auditor's report.

## 1. Organization and Purpose

The accompanying financial statements reflect the consolidated operations of DuPage Habitat for Humanity, Inc., Pioneer Prairie, LLC and Prairie Green Habitat, LLC (collectively referred to as the Organization). All significant intercompany transactions and balances have been eliminated in consolidation.

DuPage Habitat for Humanity, Inc. (Habitat), a not-for-profit corporation, was incorporated on February 3, 1995. The Organization is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian non-profit organization whose purpose is to provide home ownership opportunities to limited income families or individuals, and to put the reality of substandard housing in the minds and hearts of DuPage residents in such a powerful way that unattainable home ownership for these families or individuals becomes politically, socially and religiously unacceptable. Although Habitat for Humanity International, Inc. (HFHI) assists with informational resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for its own operation.

During the year ended June 30, 2008, the Organization established Pioneer Prairie, LLC (Pioneer Prairie), a single member wholly-owned subsidiary. Pioneer Prairie was established for the purpose of purchasing land and constructing the Pioneer Prairie development.

During the year ended June 30, 2012, the Organization launched a new ReStore program. This program recycles used and surplus household and construction materials to reduce the tonnage of waste going into landfills and provide building supplies to the general public at greatly reduced prices. All profits from the sales go to funding the mission of the Organization.

During the year ended June 30, 2012, the Organization established Prairie Green Habitat, LLC (Prairie Green Habitat), a single member wholly-owned subsidiary. Prairie Green Habitat was established for the purpose of purchasing land and constructing the Prairie Green development.

During the year ended June 30, 2015, the Organization established the DuPage Habitat for Humanity Neighborhood Revitalization Council (NRC), a single member wholly-owned subsidiary. The NRC was established for the purpose of developing a Community Housing Development Organization (CHDO), a community-based organization with staff and the capacity to develop affordable housing for the community it serves.

## 2. Summary of Significant Accounting Policies

**General** – The accounts and consolidated financial statements are maintained on the accrual basis of accounting and accordingly, reflect all significant accounts receivable, payable, and other liabilities.

The Organization reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted (when applicable) net assets, as required by Generally Accepted Accounting Principles (GAAP).

**Use of 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 the reported amounts of the revenues, expenses, gains, losses and other changes in net assets during the reporting period. Accordingly, actual results could differ from those estimates.

**Income Tax Status** – DuPage Habitat for Humanity, Inc. was granted an exemption from federal income taxes by the Internal Revenue Service pursuant to the provisions of Internal Revenue Code Section 501(c)(3). Habitat qualifies for the charitable construction deduction under Section 170(b)(1)(A)(vi) and has been classified as an organization that is not a private foundation under Section 509(a)(1). The tax exempt purpose of Habitat and the nature in which it operates is described above. The Organization continues to operate in compliance with its tax exempt purpose.

Pioneer Prairie, Prairie Green Habitat and the NRC are wholly owned limited liability companies with Habitat being the sole member. For tax purposes, these entities are treated as disregarded entities. Their activities are included in Habitat's tax reporting.

The Organization's tax returns for the years ended June 30, 2012, 2013 and 2014 are open for purposes of Internal Revenue Service or Illinois Department of Revenue examinations.

**Cash and Cash Equivalents** – Cash and cash equivalents consist of bank deposits in federally insured accounts.

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

**Property and Equipment** – Expenditures for property and equipment and items which substantially increase the useful lives of existing assets are capitalized at cost or fair value if donated. The Organization provides for depreciation on the straight-line method at rates designed to depreciate the costs of assets over estimated useful lives of 5 years.

2. **Summary of Significant Accounting Policies** (cont'd)

**Investment in Limited Liability Company** – The Organization is one of two equal members in Home Together, LLC, a nonprofit organization formed in 2010 to purchase and share the building used for operations. Due to the Organization's lack of a controlling interest in the subsidiary, its investment is accounted for under the equity method and consolidated financial statements are not presented. The investment account is increased for cash contributions made to the LLC and for the Organization's proportionate share of the LLC's other increase in net assets, and decreased for the cash distributions received from the LLC and the Organization's proportionate share of the LLC's other decreases in net assets.

**Support and Revenue** – The Organization reports gifts of cash and other assets as restricted support, if they are received with donor stipulations that limit the use of the donated assets. When a donor 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. If a restriction is fulfilled in the same time period in which the contribution is received, the Organization reports the support as unrestricted.

The Organization reports gifts of land, buildings, and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations regarding how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired long-lived assets are placed in service.

**Government Contributions** – Support funded by government contracts, which qualify as conditional promises to give, are recognized when the condition of performing the contracted services is met. Revenue is therefore recognized as earned as the condition of eligible expenses is incurred. These expenditures are subject to audit and acceptance by the respective granting agency and, as a result of such audit, adjustments could be required.

**In-Kind Contributions and Donated Services** – In addition to receiving cash contributions, the Organization receives in-kind contributions and donated services from various donors. In accordance with generally accepted accounting principles, contribution of services are required to be recognized if the services received (a) create or enhance non-financial assets, or (b) require specialized skills which are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. In-kind contributions are also required to be recorded at fair value. The Organization recognizes the estimated fair value of these in-kind donations and donated services as an expense or asset if appropriate in its consolidated financial statements, and similarly records a corresponding donation by a like amount.

2. **Summary of Significant Accounting Policies** (cont'd)

**In-Kind Contributions and Donated Services** – (cont'd)

For the years ended June 30, 2015 and June 30, 2014, the Organization received the following unconditional in-kind contributions and donated services:

| | **2015** | 2014 |
|---|---|---|
| Land and building | **$ 185,400** | $ 163,500 |
| Building materials and labor | **62,857** | 78,453 |
| Legal services | **214** | 2,727 |
| Rent and utilities | **6,000** | 7,200 |
| Mortgage services | **10,232** | 9,101 |
| Miscellaneous | **25** | 9,486 |
| | **$ 264,728** | $ 270,467 |

Effective with the opening of the ReStore in July 2011, changes in the year end ReStore inventory balance are recognized as an adjustment of ReStore operations revenue. ReStore inventory is recognized as an asset at its estimated fair value for the inventory remaining at June 30, 2015 and 2014.

For the year ended June 30, 2015, the Organization received $39,479 of donated supplies for special events and fundraisers, including $38,706 related to an event held in the next fiscal year reported as temporarily restricted at June 30, 2015, of which $17,731 was included in direct benefits to donors. For the year ended June 30, 2014, the Organization received $54,922 of donated supplies for special events and fundraisers, including $40,495 related to an event held in the 2015 fiscal year reported as temporarily restricted at June 30, 2014, of which $14,203 was included in direct benefits to donors.

There were also a substantial number of volunteers who donated a significant amount of their time towards the activities of the Organization for the years ended June 30, 2015 and 2014, the value of which has not been recognized in the consolidated financial statements as they do not meet the criteria for recognition.

**Functional Allocation of Expenses** – The costs of providing various programs and other activities have been summarized on a functional basis in the Consolidated Statement of Activities, and the Consolidated Statement of Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

2. **Summary of Significant Accounting Policies** (cont'd)

**Concentration of Risk** – During the fiscal year ended June 30, 2014, the Organization received approximately 19% of its funding from the DuPage County Community Development Commission. A portion of this funding from DuPage County in the prior year was a one-time award through the Neighborhood Stabilization program to address the foreclosure crisis in the area. Any negative change in the economy could have an impact on future contributions, fundraising efforts, as well as government grants.

**Inventories – Land and Construction-in-Progress** – Inventory is valued at the lower of cost or fair value. Inventory primarily consists of purchased and donated houses, construction materials, land and homes under construction issued in the Organization's programs. Inventory is initially capitalized at cost or fair value if donated. This includes all direct and indirect costs incurred to prepare it for sale or use. If it is determined that the capitalized costs of inventory exceed its fair value, the inventory is written down to its fair value. Construction materials are valued at cost using the first-in, first-out (FIFO) method.

**Inventory ReStore** – ReStore inventory is valued at its estimated fair value determined at the time it is received.

**Warranties** – The Organization provides a limited one-year warranty in the deed of trust on the sale of a home which is generally for defects in materials and workmanship. Warranty costs are accrued when obligations under the warranty period become probable and can be reasonably estimated. The organization did not incur warranty costs during the fiscal year 2015 ($2,992 during fiscal year 2014). There were no warranty costs accrued at June 30, 2015 and 2014.

**Advertising and Promotion** – The Organization maintains a small supply of promotional books, pamphlets and other merchandise available for public distribution and ministry purposes. Costs related to these materials, including advertising and promotion are expensed as incurred.

**Compensated Absences** – The Organization's vacation policy allows employees to accumulate and carry forward a maximum of ten vacation days. During the fiscal years ended June 30, 2015 and 2014, the Organization has recognized a liability of $24,363 and $18,510, respectively, for compensated absences.

**Comparative Information** – The consolidated financial statements include certain prior-year comparative information. Such information 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 Organization's financial statements for the year ended June 30, 2014, from which the summarized information was derived.

3. **Federal and Local Government Grants**

**Neighborhood Stabilization Program** – The Organization had been selected by the County of DuPage (County) to act as a developer to acquire and rehabilitate eligible abandoned and foreclosed single family homes under a Neighborhood Stabilization Program (NSP) funded by the Department of Housing and Urban Development (HUD). Homes acquired and rehabilitated under the NSP are then sold by the Organization to qualifying low income individuals under the Organization's normal terms and conditions. The Organization received NSP funds from the County as it incurred eligible costs. The Organization executes notes to the County as the NSP funds are received from the County. The County releases the Organization from these notes when the related homes are sold by the Organization to eligible individuals. The homeowners execute non-interest bearing first mortgages to the Organization at the time they purchase the homes. The amount of the first mortgage is determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment is affordable to the homeowners in accordance with the Organization's mission. The homeowners also execute a second mortgage to the Organization that equals the difference between the actual costs of the home and the sum of the first mortgage. The homeowners may have a third mortgage if assistance from the County is received. The second and third mortgages are also non-interest bearing and are payable only if certain events occur in the future.

All amounts paid by the homeowners to the Organization under these mortgages were considered NSP income which had to be retained by the Organization with the restriction that such amounts be used by the Organization for another eligible NSP activity in the County. The Organization initially recognized the NSP grants as temporarily restricted revenue in the period it incurs the eligible costs. Upon sale of the home, a portion of the NSP grant (the carrying amount of the first mortgage on NSP homes and any payments received under mortgages related to NSP homes) continued to be reflected as temporarily restricted net assets until such time those amounts were used for another eligible NSP activity in the County. The remainder of the NSP grant associated with the home was released upon sale. During the year ended June 30, 2014, the Organization amended the agreement with the County. This amendment lifted the restriction that restricted the use of amounts paid by the homeowners to another eligible NSP activity, and the balance of $305,842 held as temporarily restricted net assets at June 30, 2013, was released from restriction during the year ended June 30, 2014.

The Organization received a developer fee of ten percent of eligible costs for its services under the NSP. The developer fee was recognized as unrestricted revenue as the eligible costs were incurred. Revenues were also recognized for direct construction and rehabilitation costs incurred. Total grant revenues recognized under the NSP were $24,252 for the year ended June 30, 2014. The Organization did not participate in the NSP program during the year ended June 30, 2015.

3. **Federal and Local Government Grants** (cont'd)

**Community Development Block Grants** – The Organization had been awarded grants by the County from its Housing Development Fund to be used to fund in part the Organization's development of 11 homes in its Pioneer Prairie subdivision. These grants were funded through Community Development Block Grants (CDBG) from HUD. The Organization received CDBG funds from the County as it incurred eligible costs. For the portion of the funds used to build homes, the Organization executed notes to the County as the CDBG funds were received from the County. The homeowners executed non-interest bearing first mortgages to the Organization at the time they purchased the homes. The amount of the first mortgage was determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment was affordable to the homeowner in accordance with the Organization's policies. In addition, the homeowners assumed a pro rata portion of the Organization's note to the County in the form of a third mortgage. The homeowners also executed a second mortgage to the Organization that equaled the difference between (a) the market value of the home and (b) the sum of the sales price (which is the sum of the first mortgage and the down payment) and the third mortgage. The second and third mortgages were also non-interest bearing and are payable only if certain events occur in the future.

The Organization recognized the portion of the CDBG grant designated to fund a portion of the infrastructure costs as unrestricted revenue in the period it incurred the eligible infrastructure costs. The Organization recognized the portion of the CDBG grant designated to fund a portion of the cost of building the homes as temporarily restricted revenue in the period it incurred the eligible costs and released the restriction at the time of the sale of the home. The Organization does not receive a developer's fee under the CDBG grant agreement.

The Organization did not sell any homes during the years ended June 30, 2015 or 2014 in its Pioneer Prairie subdivision. There was no revenue recognized for the years ended June 30, 2015 and 2014.

**HOME** – The Organization has been awarded grants by the County from its Housing Development Fund to be used to fund in part the Organization's development of 12 townhomes in its Prairie Green subdivision. These grants are funded through HOME Investment Partnerships Act Funds (HOME) from HUD. The Organization receives HOME funds from the County as it incurs eligible costs. The Organization executes notes to the County when the HOME grant is executed with the County. The future homeowners will execute non-interest bearing first mortgages to the Organization at the time they purchase the townhomes. The amount of the first mortgage will be determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment is affordable to the homeowner in accordance with the Organization's policies. The homeowners will also execute a second mortgage to the Organization that equals the difference between (a) the market value of the townhome and (b) the sum of the sale price (which is the sum of the first mortgage and the down payment) not to exceed $275,200.

3. **Federal and Local Government Grants** (cont'd)

**HOME** – (cont'd)

The second mortgage will also be non-interest bearing and payable only if certain events occur in the future.

The County will release the Organization from $1/12^{th}$ of the County's mortgage at the time each townhouse is sold to an eligible homeowner. Each townhouse will be subject to a Regulatory Land Use Restriction Agreement (RLURA) that will impose resale restrictions on the townhomes for a period of 15 years. The RLURA is intended to insure that any townhomes resold during that 15 year period will be sold to individuals whose income does not exceed specified levels at a price affordable to such individuals.

The Organization will recognize the HOME grant as temporarily restricted revenue in the period it incurred the eligible costs. A portion of the HOME grant, equal to costs incurred for the construction of the home plus a pro rata share of land and general infrastructure costs, will be transferred to unrestricted net assets at the time of the sale of the home. Total revenues recognized related to the HOME grant awarded for the Prairie Green subdivision were $150,000 in the year ended June 30, 2014. There was no revenue recognized in the year ended June 30, 2015.

The Organization receives a developer fee of fifteen percent of eligible costs for its services under the HOME agreement. The developer fee is recognized as restricted revenue as the eligible costs are incurred with a pro rata portion being transferred to unrestricted net assets at the time of the sale of the home.

The Organization received an additional HOME grant of $588,000 in the prior year to fund eligible costs related to the acquisition and rehabilitation of up to four vacant single family homes. Eligible costs were incurred in the prior year and the grant was recognized as unrestricted revenue in accordance with Organization revenue recognition policies.

**Capacity Building for Community Development and Affordable Housing** – The Organization had been awarded an $89,000 conditional grant by Habitat for Humanity International, which is a re-granting entity for HUD for the Section 4 Capacity Building for Community Development and Affordable Housing Grant (CB grant) for the period of July 1, 2011 to June 30, 2014. The funds were to be used to increase the home building capacity of the Organization through additional staffing positions. The Organization was required to demonstrate a four-to-one match for the grant funds as they were received and progress towards its housing goals until they were met. Total revenue recognized related to the CB grant was $15,907 for the year ended June 30, 2014, the final fiscal year covered by the grant.

3. **Federal and Local Government Grants** (cont'd)

**Energy Efficient Affordable Housing Construction Program** – The Organization had been awarded two conditional grants in the fiscal year ended June 30, 2014 by the Illinois Department of Commerce Economic Opportunity (DCEO) to be used to fund the installation of energy efficient measures in five townhomes and five new, single family homes, respectively. Total revenues recognized related to the DCEO grants were $27,000, of which none was temporarily restricted at June 30, 2014.

Federal and local government grants recognized as revenue as of June 30, are as follows:

| | **2015** | 2014 |
|---|---|---|
| NSP | $ - | $ 24,252 |
| HOME | - | 738,000 |
| CB | - | 15,907 |
| DCEO | - | 27,000 |
| Other | **3,099** | - |
| | **$ 3,099** | $ 805,159 |

4. **Home Sales**

The Organization recognizes revenue from the sale of its homes at the fair value of the first mortgages it receives plus the required down payments. The first mortgages are non-interest bearing and require monthly payments, typically over a 30 year period. The amount of a first mortgage is determined by the Organization such that, when considering real estate taxes and insurance, the required mortgage payment is affordable to the homeowner in accordance with the Organization's policies. The fair value of the first mortgage is determined by discounting the mortgage payments using an interest rate that approximates a current market rate of interest for such a mortgage instrument.

The sales price is the lower of appraised value or cost of construction. The Organization determines the amount of the first mortgage based on the partner family's ability to pay, and a second mortgage is entered into for the difference. The following is a reconciliation of the market value of homes sold and the revenue recognized on the sale of those homes for the years ended June 30:

| | **2015** | 2014 |
|---|---|---|
| Market value of homes sold | **$ 696,000** | $ 1,540,000 |
| Excess of market value over sales price of home sold | **(141,559)** | (703,005) |
| Homeowners' down payments | **7,312** | 9,000 |
| Discount on first mortgages (non-interest) | **(269,547)** | (497,231) |
| Net revenue from the sale of homes | **$ 292,206** | $ 348,764 |

4. **Home Sales** (cont'd)

The Organization has the ability to recover a portion of these subsidies if a homeowner disposes of a home or otherwise prepays the first mortgage prior to the end of the term of the first mortgage.

5. **Mortgages Receivable**

Applicants purchasing homes from the Organization agree to a first mortgage secured by the purchased home. The mortgages are non-interest bearing and require monthly payments, typically over a 30 year period. To appropriately reflect the economics of the non-interest bearing mortgage, the Organization discounts the mortgages for financial reporting purposes at the time they are originated using an interest rate that approximates a current market rate of interest for such a mortgage instrument. The discount rate was 7.5% for the years ended June 30, 2015 and June 30, 2014. That discount is then amortized to income over the term of the mortgage. The Organization recognized $122,547, and $104,074, of income from the mortgage loan discount amortization for fiscal years ended June 30, 2015 and 2014, respectively.

The Organization originated mortgages, net of related discounts, in the amount of $201,964, and $339,764, for the years ended June 30, 2015 and 2014, respectively. The Organization does not charge homeowners any fees in connection with originating the mortgages and does not defer any costs related to originating the mortgages.

Mortgage receivables at June 30, are presented net of unamortized discounts as follows:

| | **2015** | 2014 |
|---|---|---|
| Gross mortgage receivable at face value | **$ 4,306,534** | $ 4,081,452 |
| Less – Unamortized discount based on imputed interest rates of 7.5% to 8.8% | **(2,710,693)** | (2,563,697) |
| Net mortgage receivable | **$ 1,595,841** | $ 1,517,755 |
| Current portion | **$ 84,797** | $ 80,995 |
| Long-term | **1,511,044** | 1,436,760 |
| | **$ 1,595,841** | $ 1,517,755 |

Anticipated future principal collections on the discounted mortgages are estimated as:

| | |
|---|---|
| 2016 | $ 84,797 |
| 2017 | 82,732 |
| 2018 | 77,273 |
| 2019 | 73,937 |
| 2020 | 72,482 |
| Thereafter | 1,204,620 |
| Total | $ 1,595,841 |

5. **Mortgages Receivable** (cont'd)

In addition, "silent" second mortgages exist on nearly all homes sold by the Organization. In general, the "silent" second mortgages are established for the difference between (a) the estimated market value of the home at date of sale (or, in the case of homes funded through certain grants, the cost of the home) and (b) the sales price of the home (the sum of the undiscounted amount of the first mortgage and the down payment made by the homeowner). The "silent" second mortgages are non-interest bearing and are forgiven ratably beginning in the 83rd month after sale of the home over the remainder of the first mortgage term (beginning with the 61st month after sale for mortgages originated prior to 2009). All second mortgages are forgiven after 30 years. Pursuant to some grant arrangements, the grantor may hold a portion of the "silent" second mortgage or may hold a "silent" third mortgage. The Organization does not record its share of the "silent" second mortgages in the financial statements. Second mortgages totaled $3,631,284 which is net of $869,532 in mortgage forgiveness as of June 30, 2015 ($3,761,527 which is net of $632,111 in mortgage forgiveness as of June 30, 2014).

Finally, a profit sharing agreement exists on all homes sold by the Organization. The amount is based on a percentage of the appreciation in value and the length of time the homeowner has owned the house so that the longer the homeowner has owned the home, the lower the percentage of profit due to the Organization.

Events which trigger payments to be made on second mortgages are as follows:

1. Sale of property to a third party.
2. Transfer of property to someone other than the buyer's spouse.
3. Rental of property to a third party.
4. Creation of certain trusts which affects the title to the property.
5. Failure to occupy property as main residence.
6. Refinance property without paying off the amount due under the first mortgage note plus the amount for which the buyer has not received credit under the second mortgage noted as of the date of the payoff.
7. Failure to make three payments in a row.
8. Third party forecloses on the property or files mechanics lien on the property.
9. Use of property to carry on a business, trade, or profession except as permitted by applicable law or ordinance.
10. Attempt to prepay one of the mortgage notes before maturity of the first mortgage note and the second mortgage note without prepaying both the first mortgage note and the second mortgage note.
11. Failure to perform the terms of either of the first mortgage note or the second mortgage note or either of the first mortgage or the second mortgage and do not cure such failure within any applicable notice or cure period.

5. **Mortgages Receivable** (cont'd)

In the event that a homeowner disposes of a home or otherwise prepays the first mortgage prior to the end of the term of the first mortgage, the balance of the "silent" second mortgage and any sharing of appreciation in the value of the home between the homeowner and the Organization becomes due. Finally, the first mortgage provides the Organization with the right of first refusal, at the then current market value, to purchase any home that a homeowner has decided to sell. There was no income from partner families selling homes in 2015 or 2014.

The Organization has not established an allowance for loan losses for its mortgage receivables as there are no probable and reasonably estimable losses related to the mortgage receivables as of June 30, 2015 and 2014. This conclusion is based in part on the fact that the estimated value of the properties securing the mortgage receivables significantly exceeds the amount recognized as mortgage receivables.

6. **Mortgages Receivable Servicing**

DuPage Habitat for Humanity, Pioneer Prairie, LLC and Prairie Green Habitat, LLC mortgage receivables are serviced by Harris Bank at no charge. The Organization received $10,232 and $9,101 of donated services for years ending June 30, 2015 and 2014, respectively, which are recorded at fair value in the consolidated financial statements.

7. **Related Party Transactions**

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. (HFHI). These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2015 and 2014, contributions to HFHI totaled $22,500 and $13,500, respectively.

During the year ended June 30, 2015, the Organization received grant funds from HFHI, which are sponsored by Thrivent Financial for Lutherans totaling $7,500. No funds were received during the year ended June 30, 2014.

During the year ended June 30, 2015, the Organization received net proceeds from HFHI through the Cars for Homes program totaling $10,312. No funds were received from this program during the year ended June 30, 2014.

As described in Note 3, HFHI, acting as a re-granting entity for HUD, awarded a capacity building grant to the Organization. The Organization recognized grant revenue of $15,907 related to this grant during the year ended June 30, 2014. No grant funds were awarded or received during the year ended June 30, 2015.

During 2011, the Organization also borrowed $249,900 from HFHI, securing the loan by pledging mortgage receivables. Refer to Note 9 for further information.

7. **Related Party Transactions** (cont'd)

On March 1, 2011, the Organization commenced a lease for office space located at 1600 East Roosevelt in Wheaton, Illinois with Home Together, LLC. The Organization paid rent expenses of $24,000 annually for the years ended June 30, 2015 and 2014.

Chicagoland Habitat for Humanity (CHFH), an organization which DuPage Habitat for Humanity has a representative on their Board of Directors, awarded a capacity building grant to the organization for the purchase of a utility van. The Organization recognized grant revenue of $20,000 related to this grant during the year ended June 30, 2015. No such grant funds were awarded or received during the year ended June 30, 2014.

During the year ended June 30, 2015, the Organization received contributions and pass-through funds from CHFH for unrestricted support, build days support, and ReStore marketing support totaling $67,950 ($59,200 during the year ended June 30, 2014).

8. **Operating Leases**

On March 1, 2011, the Organization commenced a lease for its office space located at 1600 East Roosevelt in Wheaton Illinois with a related party, Home Together, LLC. See Note 13 for information about the formation and mission of Home Together, LLC. The Organization's monthly rent is set annually by the Board of Managers of Home Together, LLC at an amount that approximates 50% of the projected operating costs of Home Together, LLC. The rent payment per month was $2,000 for the years ended June 30, 2015 and 2014. It is anticipated that the rent will be approximately this same amount in future years. For financial reporting purposes, the Organization is treating the lease with Home Together, LLC as a five-year operating lease, which corresponds to the term of Home Together, LLC's bank financing used to purchase the property.

Office space rent expense was $24,000 for both years ended June 30, 2015 and 2014.

The Organization leases retail space for its ReStore operations at 869 South Route 53 in Addison, Illinois, under an operating lease with an expiration date of February 28, 2016. Rent, common area maintenance, and utilities for the years ended June 30, 2015 and 2014 were $193,793 and $182,541, respectively.

The Organization also had an operating lease expiring December 2013 for a copy machine that was replaced by a new lease expiring December 2018. Rent expense for these operating leases for the years ended June 30, 2015 and 2014 was $3,968 and $3,960, respectively.

8. **Operating Leases** (cont'd)

Minimum future lease payments are as follows at June 30:

| | Office Space | Retail Space | Other | Total |
|---|---|---|---|---|
| 2016 | $ 16,000 | $ 81,334 | $ 2,581 | $ 99,915 |
| 2017 | - | - | 2,581 | 2,581 |
| 2018 | - | - | 2,581 | 2,581 |
| 2019 | - | - | 1,291 | 1,291 |
| | $ 16,000 | $ 81,334 | $ 9,034 | $ 106,368 |

9. **Notes Payable and Lines of Credit**

| | **2015** | 2014 |
|---|---|---|
| **DuPage Habitat for Humanity, Inc.** | | |
| The Organization maintains a line of credit with Wheaton Bank and Trust Company in the amount of $200,000. The loan agreement is collateralized by real property of one home located in Westmont with a total book value of $182,961 and $181,627 at June 30, 2015 and 2014, respectively. Interest varies with the bank's prime rate, which was 4% as of June 30, 2015, and is payable monthly. This line of credit is to be repaid on or before November 20, 2015 (maturity date) with all accrued and unpaid interest. | **$ 116,000** | $ 116,000 |
| | **116,000** | 116,000 |
| Less current portion | **(116,000)** | (116,000) |
| Net long-term debt | **$ -** | $ - |
| **Prairie Green Habitat, LLC** | | |
| On April 30, 2012, the Organization obtained a promissory note with West Suburban Bank in the amount of $210,000 with a maturity date of November 1, 2015. The loan agreement is collateralized by real property with a book value of $842,948, located in unincorporated Glen Ellyn. Interest is at a fixed rate of 4.25%, payable monthly through maturity. Principal is allocated equally over the twelve lots and repaid as the lots are sold. Subsequent to year end, the term was extended to November 1, 2016. | **$ 121,749** | $ 121,749 |
| Less current portion | **(121,749)** | (121,749) |
| Net long-term debt | **$ -** | $ - |

9. **Notes Payable and Lines of Credit** (cont'd)

| | 2015 | 2014 |
|---|---|---|
| **Pioneer Prairie, LLC** | | |
| The Organization has a short-term promissory note renewable annually with Hinsdale Bank. This promissory note is collateralized by real property with a book value of $104,214, located in West Chicago. Interest varies with the bank's prime rate, which was 5% as of June 30, 2015, and is payable monthly. | $ **31,724** | $ 32,000 |
| On June, 23, 2011, the Organization obtained a promissory note with HFHI in the amount of $249,900. The loan agreement is collateralized by a portion of the mortgage receivables, with a carrying value of $313,619 at June 30, 2015. Interest is a fixed rate of 4.95% and the life of the loan is seven years. Principal and interest are | **117,699** | 153,227 |
| | **149,423** | 185,227 |
| Less current portion | **(69,043)** | (67,528) |
| Net long-term debt | $ **80,380** | $ 117,699 |

Minimum future principal payments are as follows at June 30:

| | DuPage Habitat For Humanity | Prairie Green Habitat, LLC | Pioneer Prairie, LLC | Total |
|---|---|---|---|---|
| 2016 | $ 116,000 | $ 121,749 | $ 69,043 | $ 306,792 |
| 2017 | - | - | 39,201 | 39,201 |
| 2018 | - | - | 41,179 | 41,179 |
| Totals | $ 116,000 | $ 121,749 | $ 149,423 | $ 387,172 |

On June 25, 2012, Prairie Green Habitat, LLC obtained an Irrevocable Letter of Credit of $196,000 maturing on June 25, 2016, with West Suburban Bank in favor of Milton Township for Prairie Green public improvements. No advances were drawn on the letter of credit. If Milton Township had made draws on the letter of credit, the Organization would have been obligated to make payment on demand to West Suburban Bank.

## 10. **Inventories – Land and Construction in Progress**

Land and construction in progress inventory consists of the following at June 30:

| | **2015** | 2014 |
|---|---|---|
| Homes under construction (8 properties in 2015 and 6 properties in 2014). | $ **1,131,402** | $ 693,306 |
| Land held for future development. | **153,486** | 188,120 |
| Land and engineering drawings for Prairie Green townhome project in unincorporated Glen Ellyn. | - | 449,939 |
| Building supplies. | **2,078** | 23,442 |
| **Total** | $ **1,286,965** | $ 1,354,807 |

## 11. **Pledges Receivable**

Pledges for cash, in-kind contributions and certain qualified donated services are recognized in the financial statements at the time of commitment based on written documentation or strong verbal assurances from the donor. At June 30, 2015 and June 30, 2014, pledge receivables are restricted to construction and rehabilitation of homes in the home ownership program.

Pledges receivable are presented in the Statement of Financial Position as follows at June 30:

| | **2015** | 2014 |
|---|---|---|
| Pledges receivable: | | |
| Current | $ **366,211** | $ 103,705 |
| Long-term, net of discount of 3.25% per annum | **14,510** | 9,804 |
| **Total** | $ **380,721** | $ 113,509 |

11. **Pledges Receivable** (cont'd)

Pledges receivable are composed of:

| | 2015 | 2014 |
|---|---|---|
| Cash | **$ 195,811** | $ 110,105 |
| In-kind and donated services - Project management services | **185,400** | 3,600 |
| **Total pledges receivable** | **381,211** | 113,705 |
| Less present value discount | **(490)** | (196) |
| **Net pledges receivable** | **$ 380,721** | $ 113,509 |

When a pledge receivable is deemed uncollectible, it is written off as a reduction of in-kind donation expense (pledges unrealized). For the years ended June 30, 2015 and June 30, 2014, the Organization wrote off $12,105 and $50,000, respectively, of pledges receivable.

12. **Temporarily Restricted Net Assets**

Temporarily restricted net assets consist of the following at June 30:

| | 2015 | 2014 |
|---|---|---|
| Unconditional pledges for cash and donated materials and labor for the construction and rehabilitation of homes in the home ownership program. | **$ 364,471** | $ 110,509 |
| HOME – Mortgages held by the DuPage County Community Development Commission to be forgiven on a pro rata basis upon the sale of the properties in the home ownership. | **420,000** | 420,000 |
| Donations for future fund-raising events | **46,206** | 40,495 |
| Grants for ReStore | **1,144** | 13,125 |
| | **$ 831,821** | $ 584,129 |

13. **Home Together LLC**

During the year ended June 30, 2011, Habitat and DuPage Home Ownership Center (DHOC) formed Home Together, LLC to jointly acquire office space for themselves in DuPage County, Illinois. On February 13, 2012, Home Together, LLC received a notice from the Internal Revenue Service that it is a 501(c)(3) organization.

Home Together, LLC has acquired the property located at 1600 East Roosevelt Road in Wheaton, Illinois for $625,000. This purchase was funded through a CDBG grant received from HUD in the amount of $566,888 and a loan from West Suburban Bank in the amount of $70,000. The grant is in the form of a 20-year non-interest bearing loan that will be forgiven after 20 years as long as the Organization, Home Together, LLC, and DHOC have complied with the terms of the grant. Specifically, the grant requires that any real property acquired using the grant funds be used to benefit low and moderate income persons for the 20-year term of the forgivable loan. The Organization, DHOC, and Home Together, LLC are jointly obligated for the forgivable loan.

The promissory note with West Suburban Bank has a term of 5 years, a maturity date of March 2016 and a fixed interest rate at 4.25%. Principal is being paid monthly as if the loan was amortized over 20 years, with the balance of the loan due in March of 2016.

Home Together, LLC will administer, operate and oversee the use and management of the property, including, without limitation, leasing office space to member organizations, repairing and maintaining the property. Each member has equal membership interest and is entitled to appoint three managers of the Company.

14. **Subsequent Events**

Subsequent events have been evaluated through January 22, 2016, which is the date the financial statements were available to be issued.