

HABITAT FOR HUMANITY PHILADELPHIA, INC.

Financial Statements

For the years ended June 30, 2012 and 2011

(With Independent Auditors' Report thereon)

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Table of Contents
For the years ended June 30, 2012 and 2011

CONTENTS

	<u>Page</u>
Independent Auditors' Report	1
Statements of Financial Position	2-3
Statement of Activities For the year ended June 30, 2012	4
Statement of Activities For the year ended June 30, 2011	5
Statement of Functional Expenses For the year ended June 30, 2012	6
Statement of Functional Expenses For the year ended June 30, 2011	7
Statements of Cash Flows	8
Notes to Financial Statements	9-17



Certified Public Accountants & Consultants

Administrative Office:
10 Allen Street, Ste. 2B, Toms River, NJ 08753 • Tel: 732.797.1333
618 Stokes Road, Medford, NJ 08055 • Tel: 609.953.0612
926 Main Street, Suite 103, Rome, PA 18837 • Tel: 570.297.5090
795 Canton Street, Troy, PA 16947 • Tel: 570.297.5090
holmanfrenia.com

INDEPENDENT AUDITORS' REPORT

To the Board of Trustees
Habitat for Humanity Philadelphia, Inc.

We have audited the accompanying statements of financial position of Habitat for Humanity Philadelphia, Inc. (a nonprofit organization) as of June 30, 2012 and 2011, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in the *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Philadelphia, Inc. as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

HOLMAN & FRENIA, P.C.
HOLMAN & FRENIA, P.C.
Certified Public Accountants

September 14, 2012
Toms River, New Jersey

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Financial Position
June 30, 2012 and 2011

ASSETS	<u>2012</u>	<u>2011</u>
Current assets:		
Cash and cash equivalents	\$ 419,733	\$ 334,077
Investments	20,639	5,843
Mortgage receivable - current portion net of accumulated amortization of \$149,930 and \$136,786, respectively	215,686	274,019
Construction in progress	552,631	581,609
Prepaid expenses and other current assets	30,199	20,757
Total current assets	<u>1,238,888</u>	<u>1,216,305</u>
Buildings and equipment:		
Land	5,000	5,000
Buildings and improvements	97,907	82,676
Office equipment and furnishings	97,552	80,484
Construction equipment	27,728	27,728
Transportation equipment	59,104	52,554
	<u>287,291</u>	<u>248,442</u>
Less: accumulated depreciation	<u>(199,694)</u>	<u>(174,564)</u>
Property and equipment, net	<u>87,597</u>	<u>73,878</u>
Other Assets:		
Completed houses under lease purchase	85,000	145,000
Deposits	17,656	17,656
Loan origination fee, net of accumulated amortization of \$11,190 and \$6,993, respectively	51,756	55,953
Mortgage receivable net of accumulated amortization of \$2,554,519 and \$2,171,083, respectively	2,323,822	2,097,083
Investment in HFHI-SA Leverage III, LLC	1,387,781	1,364,323
Total other assets	<u>3,866,015</u>	<u>3,680,015</u>
Total assets	<u><u>\$ 5,192,500</u></u>	<u><u>\$ 4,970,198</u></u>

See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Financial Position (continued)
June 30, 2012 and 2011

	2012	2011
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 38,022	\$ 18,688
Accrued payroll and payroll taxes	28,053	22,192
Accrued expenses	22,763	29,481
Notes payable - current, net of discount of \$209 and \$564, respectively	35,866	35,748
Total current liabilities	124,704	106,109
Long-term liabilities:		
Escrow deposits	56,120	75,568
Notes payable, net of discount of \$0 and \$200, respectively	2,106,047	2,142,241
Total long-term liabilities	2,162,167	2,217,809
Total liabilities	2,286,871	2,323,918
NET ASSETS		
Unrestricted	2,861,350	2,609,309
Temporarily restricted	44,279	36,971
Total net assets	2,905,629	2,646,280
Total liabilities and net assets	\$ 5,192,500	\$ 4,970,198

See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Activities
For the year ended June 30, 2012

	2012		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Sales to homeowners	\$ 1,276,000	\$ -	\$ 1,276,000
Individuals	237,234	3,000	240,234
Corporations and Foundations	17,330	849,880	867,210
Government	54,000	-	54,000
Churches and schools	18,605	2,500	21,105
Amortization of mortgage discount	205,363	-	205,363
Interest	279	-	279
Fundraising	160,524	-	160,524
Restore	361,123	-	361,123
Other revenue	51,722	-	51,722
Realized gain (loss) on investments	10	-	10
Unrealized gain (loss) on investments	(700)	-	(700)
Net assets released from restrictions	848,072	(848,072)	-
Total revenues and support	<u>3,229,562</u>	<u>7,308</u>	<u>3,236,870</u>
Expenses:			
Program	2,502,997	-	2,502,997
Administrative	270,451	-	270,451
Fundraising	204,072	-	204,072
Total expenses	<u>2,977,520</u>	<u>-</u>	<u>2,977,520</u>
Change in net assets	<u>252,042</u>	<u>7,308</u>	<u>259,350</u>
Net assets, beginning of year	<u>2,609,309</u>	<u>36,971</u>	<u>2,646,280</u>
Net assets, end of year	<u>\$ 2,861,350</u>	<u>\$ 44,279</u>	<u>\$ 2,905,629</u>

See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Activities
For the year ended June 30, 2011

	2011		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Sales to homeowners	\$ 376,730	\$ -	\$ 376,730
Sales of assets	60,000		60,000
Individuals	296,753	-	296,753
Corporations and Foundations	158,517	215,504	374,021
Government	141,600	-	141,600
Churches and schools	15,828	-	15,828
Amortization of mortgage discount	136,476	-	136,476
Interest	215	-	215
Donated materials and supplies	46,520		46,520
Donated buildings	20,000	-	20,000
Fundraising	135,919	-	135,919
Restore	60,858	-	60,858
Other revenue	42,040	-	42,040
Realized gain (loss) on investments	(14)		(14)
Unrealized gain (loss) on investments	934	-	934
Net assets released from restrictions	183,124	(183,124)	-
Total revenues and support	<u>1,675,500</u>	<u>32,380</u>	<u>1,707,880</u>
Expenses:			
Program	1,186,805	-	1,186,805
Administrative	252,429	-	252,429
Fundraising	181,734	-	181,734
Total expenses	<u>1,620,968</u>	<u>-</u>	<u>1,620,968</u>
Change in net assets	<u>54,532</u>	<u>32,380</u>	<u>86,912</u>
Net assets, beginning of year	<u>2,554,777</u>	<u>4,591</u>	<u>2,559,368</u>
Net assets, end of year	<u>\$ 2,609,309</u>	<u>\$ 36,971</u>	<u>\$ 2,646,280</u>

See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Functional Expenses
For the year ended June 30, 2012

	Total	Program Services	Management and General	Fundraising
Americorps	\$ 61,479	\$ 61,479	\$ -	\$ -
Bank fees	20,130	4,976	12,220	2,934
Construction costs	1,062,680	1,062,388	292	-
Depreciation	25,130	19,117	6,013	-
Dues and subscriptions	6,730	1,964	1,884	2,882
Employee benefits	91,115	69,184	8,318	13,613
Fundraising	34,751	5,242	1,672	27,837
Insurance	66,782	65,750	1,006	26
Interest	54,151	19,321	34,830	-
Loan origination fee amortization	4,196	-	4,196	-
Miscellaneous	25,873	10,341	15,392	140
Mortgage amortization	611,617	611,617	-	-
Office expense	35,333	12,713	22,386	234
Payroll	532,626	368,395	45,129	119,102
Payroll service	1,911	-	1,911	-
Payroll taxes	70,554	52,729	5,033	12,792
Postage and delivery	8,029	372	3,944	3,713
Printing	27,499	5,954	1,075	20,470
Professional fees	55,065	1,490	53,575	-
Program expenses	25,896	24,616	1,280	-
Rent	60,100	60,100	-	-
Telephone	19,115	3,227	15,888	-
Tithe	24,000	-	24,000	-
Training and education	3,434	2,606	499	329
Travel	25,557	22,039	3,518	-
Utilities	23,251	16,993	6,258	-
Website	516	384	132	-
Total expenses	\$ 2,977,520	\$ 2,502,997	\$ 270,451	\$ 204,072

See independent auditors' report.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Functional Expenses
For the year ended June 30, 2011

	Total	Program Services	Management and General	Fundraising
Americorps	\$ 69,730	\$ 69,256	\$ 474	\$ -
Bank fees	9,202	19	7,161	2,022
Construction costs	513,387	513,387	-	-
Depreciation	10,967	5,357	5,610	-
Dues and subscriptions	5,234	990	2,249	1,995
Employee benefits	66,939	50,066	6,869	10,004
Fundraising	27,681	-	-	27,681
Insurance	44,526	44,118	408	-
Interest	56,639	-	56,639	-
Loan origination fee amortization	4,196	-	4,196	-
Miscellaneous	16,555	7,630	8,593	332
Mortgage amortization	214,235	214,235	-	-
Office expense	25,694	3,577	21,721	396
Payroll	350,394	206,050	37,369	106,975
Payroll service	2,229	-	2,229	-
Payroll taxes	49,635	34,228	3,986	11,421
Postage and delivery	7,411	518	3,335	3,558
Printing	20,395	2,248	1,777	16,370
Professional fees	46,240	7,278	38,962	-
Program expenses	6,707	4,794	1,913	-
Rent	5,000	5,000	-	-
Telephone	14,538	140	14,398	-
Tithe	20,000	-	20,000	-
Training and education	3,568	1,610	1,588	370
Travel	19,700	15,680	3,960	60
Utilities	8,924	74	8,850	-
Website	1,242	550	142	550
Total expenses	\$ 1,620,968	\$ 1,186,805	\$ 252,429	\$ 181,734

See independent auditors' report.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Cash Flows
For the years ended June 30, 2012 and 2011

	2012	2011
Cash flows from operating activities:		
Change in net assets	\$ 259,350	\$ 86,912
Items which did not use cash:		
Depreciation	25,130	10,967
Donation of fixed assets	(25,980)	(25,980)
Donation of construction in progress	(40,540)	(40,540)
Unrealized gain on investments	(700)	934
Amortization of mortgage discount	406,254	77,759
Amortization of loan origination fee	4,196	4,196
Working capital changes which (used) provided cash:		
Mortgage receivable	(574,660)	(99,847)
Construction in progress	69,518	(212,530)
Prepaid expenses	(9,442)	15,074
Completed houses	60,000	110,000
Deposits	-	(7,500)
Accounts payable	19,334	(3,874)
Accrued payroll and payroll taxes	5,861	(2,133)
Accrued expenses	(6,718)	5,361
Escrow and lease deposits	(19,448)	(2,293)
Net cash provided (used) by operating activities	172,155	(83,494)
Cash flows from investing activities:		
Purchase of fixed assets	(12,869)	(24,088)
Net increase in investments	(37,554)	(24,929)
Net cash used by investing activities	(50,423)	(49,017)
Cash flows from financing activities:		
Repayment of line of credit	-	(40,000)
Cash received from notes payable	-	-
Repayment of notes payable	(36,075)	(33,651)
Cash paid on loan origination fee	-	-
Net cash used by financing activities	(36,075)	(73,651)
Net increase/(decrease) in cash	85,657	(206,162)
Cash, beginning of year	334,077	540,239
Cash, end of year	\$ 419,733	\$ 334,077
Other Supplementary Information:		
Interest paid	\$ 54,151	\$ 57,139

See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements
For the years ended June 30, 2012 and 2011

NOTE 1: NATURE OF ORGANIZATION

Habitat for Humanity Philadelphia, Inc. (the Organization) was incorporated in February 2003 under the laws of the Commonwealth of Pennsylvania as a nonprofit, ecumenical Christian housing ministry affiliated with Habitat for Humanity International, Inc., an organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, the Organization builds simple, decent houses with the help of low-income homeowner families. The Organization focuses its efforts in Philadelphia, Pennsylvania.

The houses built by the Organization and its volunteers are sold to partner families at no profit, financed with affordable, no-interest loans. The homeowner's monthly mortgage payments go into a revolving fund that is used to build more houses. In addition to a down payment and the monthly mortgage payment, each homeowner family invests hundreds of hours of their own labor into the building of their house as well as the houses of others.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Method

The accompanying financial statements have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions.

B. Basis of Presentation

The Organization has adopted Statement of Financial Accounting Standards Board Accounting Standards Codification (FASB ASC) paragraphs 958-605-45-3 through 45-5, *Accounting for Contributions Received and Made*, and FASB ASC 958-205-05-5 through 05-7, *Financial Statements of Not-for-Profit Organizations*. FASB ASC 958-205-05-5 through 05-7 establishes standards for external financial reporting by Not-for-Profit organizations and requires that resources be classified for accounting and reporting purposes into three net asset categories according to externally imposed restrictions. FASB ASC 958-605-45-3 through 45-5 requires that unconditional promises to give be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with externally imposed restrictions. In accordance with these requirements, the Organization has recorded accounting transactions in the following net asset categories:

Unrestricted Net Assets – Net assets that are not subject to externally imposed restrictions.

Temporarily Restricted Net Assets – Net assets subject to externally imposed restrictions that will be met by the passage of time.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

C. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make certain 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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

D. Cash and Cash Equivalents

For the purpose of the statement of cash flows, cash includes unrestricted time deposits, certificates of deposit and highly liquid debt instruments with original maturities of three months or less.

E. Revenue Recognition

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and or nature of any donor restrictions. All operating funds are available for the support of the Habitat for Humanity Philadelphia, Inc.'s operations and are therefore classified as unrestricted. Habitat for Humanity Philadelphia, Inc. recognizes contributions as restricted if donor imposed.

The Organization receives donations to fund acquisition, construction and rehabilitation costs of houses. These costs are capitalized as construction in progress. When the house is completed, it is transferred to a qualified family and recorded as a sale of property for the mortgage balance the homeowner assumes.

F. Functional Allocation of Expenses

Certain operating expenses have been allocated to program services based on the reasonable benefit that the programs derived from these expenses. There are various funding sources providing support towards the Organization's programs and some of the expenses charged to the programs represent direct expenses related to program operations and objectives.

G. Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Organization qualifies for charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Organization files as a tax-exempt organization. As of June 30, 2012, its 2009 through 2011 fiscal year tax returns are open for examination by the IRS.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

H. Property and Equipment

Land, buildings and building improvements, furniture and equipment are recorded at cost, except for donated assets, which are recorded at their estimated fair market value at the date of donation. Such donations are reported as unrestricted unless the donor has restricted the donated asset to a specific purpose. Depreciation is provided over the estimated useful lives of the assets using the straight-line method. The estimated lives are as follows:

Building and building improvements	15-39 years
Furniture, equipment and transportation equipment	5-7 years

Repairs and maintenance which do not extend the useful lives of the related assets are expensed as incurred.

I. Contributed Service and Materials

Unpaid volunteers have made significant contributions of their time to the Organization's activities. However, the value of the contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or evaluation. Construction materials and fixed assets donated have been recorded at their estimated fair market value.

J. Investment Policy

Investments of the Organization are reported at fair market value as June 30, 2012 and 2011. Investment earnings on the Statement of Activities include interest, dividends and gains and losses on the sale of assets. Change in market value of assets held is reported as unrealized gains and losses.

K. Investment in Joint Venture

The Organization invested, along with five other Habitat affiliates, in a joint venture (HFHI-SA Leverage III, LLC) with 7.35 percent (7.35%) ownership to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. As a result, Habitat has invested \$1,364,323 and was able to secure a 15-year loan in the amount of \$1,585,101 payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan accrues interest only for years 1 through 7 at a reduced rate of 0.8126%. Beginning in year 8 through year 15 the principal balance of the loan is reduced by an eight-year amortization at the same rate of 0.8126%.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fair Value Measurements

The Organization categorizes its assets and liabilities measured at fair value into a three-level hierarchy based on the priority of the inputs to the valuation technique used to determine fair value. The fair value hierarchy gives the highest priority to quoted prices in active markets for identical assets or liabilities (Level I) and the lowest priority to unobservable inputs (Level III). If the inputs used in the determination of the fair value measurement fall within different levels of the hierarchy, the categorization is based on the lowest level input that is significant to the fair value measurement. Assets and liabilities valued at fair value are categorized based on the inputs to the valuation techniques as follows:

Level I – Inputs that utilize quoted prices (unadjusted) in active markets for identical assets or liabilities that the Organization has the ability to access. Fair values for these instruments are estimated using pricing models or quoted prices of securities with similar characteristics.

Level II – Inputs that include quoted market prices for similar assets and liabilities in active markets and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.

Level III – Inputs that are unobservable inputs for the asset or liability, which are typically based on an entity's assumptions, as there is little, if any, related market activity. Fair values for these instruments are estimated using appraised values.

Subsequent to initial recognition, the Organization may remeasure the carrying value of assets and liabilities measured on a nonrecurring basis to fair value. Adjustments to fair value usually result when certain assets are impaired. Such assets are written down from their carrying amounts to their fair value.

The following methods and assumptions were used by Habitat in estimating the fair value of its financial instruments:

Mortgage receivables – The carrying amount is at net present value of the loan.

Notes payable – The carrying amount of one note is at net present value of the loan. For the remaining notes, the carrying values and interest rates are considered to approximate the net realizable value.

Accounts payable – The carrying amount reported in the statement of financial position approximates fair value because of the short maturity of those instruments.

Equity Securities – The carrying amount reported in the statement of financial position approximates the net asset value of shares held by the Organization at year end.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2012 and 2011

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

M. Subsequent Events

The Organization has evaluated subsequent events occurring after the Statement of Financial Position date through the date of September 14, 2012, which is the date the financial statements were available to be issued.

NOTE 3: CASH

The deposits and investments held by the Organization at June 30, 2012 and 2011, and reported at fair value, are as follows:

	Carrying Value	
	2012	2011
Deposits:		
Demand Deposits	<u>\$ 419,733</u>	<u>\$ 334,077</u>
Total deposits	<u>\$ 419,733</u>	<u>\$ 334,077</u>
Reconciliation of Statements of Net Assets		
Current assets:		
Cash and cash equivalents	<u>\$ 419,733</u>	<u>\$ 334,077</u>
Total reconciliation	<u>\$ 419,733</u>	<u>\$ 334,077</u>

Custodial Credit Risk - Deposits in financial institutions, reported as components of cash had a bank balance of \$345,332 and \$385,255 at June 30, 2012 and 2011, respectively. Of the bank balance, \$345,332 and \$385,255 was fully insured by depository insurance at June 30, 2012 and 2011, respectively.

Concentration of Credit Risk - Financial instruments that potentially subject the Organization to concentrations of credit risk consist principally of cash investments. The Organization limits the amount of credit exposure to any one financial institution and invests cash in accounts with high credit quality.

NOTE 4: INVESTMENTS

Investments are unrestricted assets stated at fair value and consist of equity securities. Fair value at June 30, 2012 and 2011, is \$20,639 and \$5,843, respectively.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2012 and 2011

NOTE 5: MORTGAGES RECEIVABLE

Mortgages receivable consists of mortgages to homeowners. The mortgages are non-interest bearing and are secured by real estate. The mortgage loans are payable in monthly installments ranging from \$71 to \$388 over 10 to 30 year terms. The mortgages are discounted using rates provided by Habitat for Humanity International, Inc., which reflect the current market conditions. Mortgages receivable at June 30, 2012 and 2011 were as follows:

	<u>2012</u>	<u>2011</u>
Mortgages receivable	\$5,152,957	\$ 4,678,971
Less: unamortized mortgage discount	<u>(2,704,449)</u>	<u>(2,307,869)</u>
Total net mortgages receivable	2,448,508	2,371,102
Less: current portion	<u>(215,686)</u>	<u>(274,019)</u>
Long-term portion	<u>\$ 2,232,822</u>	<u>\$ 2,097,083</u>

NOTE 6: CONSTRUCTION IN PROGRESS

Construction in progress represents costs incurred to build/rehabilitate single family dwellings. Upon completion of construction, these houses will be sold or leased under a lease purchase agreement until clear title can be transferred to the member family. The balance as of June 30, 2012 and 2011 was \$552,631 and \$581,609, respectively.

NOTE 7: COMPLETED HOUSES UNDER LEASE PURCHASE

In some cases, houses completed and available are leased to the future homeowner until final closing and transfer of ownership occur. Prior to the transfer, the future homeowner makes payments, which the Organization holds and applies to defray closing costs. Once a family moves into the home, they are required to make monthly payments, which are applied toward real estate taxes, property insurance, and a down payment to reduce the mortgage they will assume. The balance as of June 30, 2012 and 2011 was \$85,000 and \$145,000, respectively.

NOTE 8: INVESTMENT IN HFHI-SA LEVERAGE III, LLC

For the years ended June 30, 2012 and 2011, the Organization participated in a New Markets Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in "qualified low-income community investment". Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

At June 30, 2010, the Organization recorded its 7.35% investment in HFHI-SA Leverage III, LLC at the cost. In December 2016, City First Capital Investment Fund, LLC, (the Fund), and the upstream effective owner of City First Capital 21, LLC (holder of the promissory note due from Habitat) is expected to exercise its put option. Under the terms of the put option agreement HFHI-SA Leverage III, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the Fund.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2012 and 2011

NOTE 9: COMMITMENTS AND CONTINGENCIES

The Pennsylvania Housing Finance Agency (PHFA), a state agency, assumed 9 mortgages held by the Organization. The Organization is responsible for maintaining the mortgages by collecting the payments. Should a homeowner become delinquent, PHFA will require repayment and discontinue the agreement for that mortgage. As of June 30, 2012 and 2011, the Organization was contingently liable for the balance of those mortgages totaling \$243,780 and \$267,184, respectively.

NOTE 10: LINE OF CREDIT

The Organization has established a \$150,000 working capital line of credit with a financial institution with interest due monthly at a variable rate of ½% above prime. Principal and unpaid interest are due in full on February 15th of each year. As of June 30, 2012 and 2011, there was no balance outstanding on the line.

The Organization has established a line of credit in the amount of \$75,000 working capital line of credit with a financial institution with interest rate of 6%. As of June 30, 2012 and 2011, there was no balance outstanding on the line.

NOTE 11: NOTES PAYABLE

The Organization had the following notes outstanding at June 30, 2012 and 2011:

	<u>2012</u>	<u>2011</u>
Habitat for Humanity International, Inc. dated February 2006, \$5,000, to be paid in 48 monthly installments of \$104 at 0%.	\$ -	\$ 1,360
Habitat for Humanity International, Inc. dated January 2007, \$10,000, to be paid in 48 monthly installments of \$208 at 0%.	1,264	3,968
In October 2009, the Organization entered into a loan agreement with Habitat for Humanity International, Inc. (HFHI) in the amount of \$297,000 at 6.5%. The loan is to be paid monthly over 10 years at \$3,385 per month principal and interest. A reserve fund equal to one quarter worth of principal and interest or \$10,156 was withheld by HFHI. The loan is secured by 15 existing mortgages of the Organization.	239,633	263,695

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2012 and 2011

NOTE 11: NOTES PAYABLE (continued)

In November 2009, the Organization has established a \$1,585,101 loan payable with City First Capital 21, LLC in relation to the new markets tax credits program and related investment in joint venture. Debt requires interest only payments until December 1, 2016 at 0.8126% and matures in November 2024. The loan is secured by substantially all the assets acquired by the Organization from the project loan proceeds. Debt has a put option feature that is exercisable December 2016 (see Note 7 above).

	1,585,101	1,585,101
--	-----------	-----------

In March 2010, the Organization converted a construction loan to a term loan held by Sovereign Bank in the amount of \$335,365 at 7.18%. The loan is to be paid monthly over 5 years at \$2,655 per month principal and interest with the total outstanding principal balance becoming due on after 5 years. The loan is secured by Stiles Street properties.

	<u>316,124</u>	<u>324,629</u>
--	----------------	----------------

Total notes payable	2,142,122	2,178,753
Less: unamortized note discount	<u>(209)</u>	<u>(764)</u>
Total net notes payable	2,141,913	2,177,989

	2,142,122	2,178,753
	<u>(209)</u>	<u>(764)</u>
	2,141,913	2,177,989

Less: current portion	<u>(35,866)</u>	<u>(35,748)</u>
Long-term portion	<u>\$2,106,047</u>	<u>\$2,142,241</u>

	<u>(35,866)</u>	<u>(35,748)</u>
	<u>\$2,106,047</u>	<u>\$2,142,241</u>

Total maturities of notes payable for the year ending June 30, are as follows:

2013	\$ 35,866	
2014	37,209	
2015	326,338	
2016	31,141	
2017	1,618,316	
2018-2020	<u>93,043</u>	
Total	<u>\$ 2,141,913</u>	

NOTE 12: NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors, as follows:

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2012 and 2011

NOTE 12: NET ASSETS RELEASED FROM DONOR RESTRICTIONS (continued)

	<u>2012</u>	<u>2011</u>
Construction	\$590,213	\$105,600
Restore	154,400	50,504
Weatherization program	98,898	
Technology upgrades	4,561	2,020
Energy upgrades	<u>-</u>	<u>25,000</u>
Total releases of restrictions	<u>\$848,072</u>	<u>\$183,124</u>

NOTE 13: TRANSACTION WITH HABITAT FOR HUMANITY INTERNATIONAL, INC.

The Organization annually remits a portion of its unrestricted contributions, excluding in-kind contributions. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2012 and 2011, the Organization made contributions totaling \$24,000 and \$20,000, respectively.

NOTE 14: PENSION PLAN

The Organization has a 403(b) plan where employees may make payroll deductions, which may be tax deferred in accordance with the Internal Revenue Code. All funds contributed are 100% vested in the employee's name.

NOTE 15: OPERATING LEASES

The Organization leases space for its ReStore under an operating lease agreement expiring in May 2016. Minimum future rental payments under the operating lease at June 30 are as follows:

2013	\$	61,406
2014		63,672
2015		63,779
2016		<u>59,534</u>
	<u>\$</u>	<u>248,391</u>

NOTE 16: GRANT AWARD

The Organization was awarded a grant on February 28, 2012 in the amount of \$480,000. The award will be paid annually in equal installments of \$120,000. The Organization must provide to the awarding agency proof that agreed upon conditions were met in order to receive the next payment. If conditions are not met, the Organization is not entitled to the next annual draw.