

HABITAT FOR HUMANITY PHILADELPHIA, INC.

Financial Statements

For the years ended June 30, 2014 and 2013

(With Independent Auditor's Report thereon)

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Table of Contents
For the years ended June 30, 2014 and 2013

CONTENTS

	<u>Page</u>
Independent Auditor's Report	1-2
Statements of Financial Position	3-4
Statement of Activities For the year ended June 30, 2014	5
Statement of Activities For the year ended June 30, 2013	6
Statement of Functional Expenses For the year ended June 30, 2014	7
Statement of Functional Expenses For the year ended June 30, 2013	8
Statements of Cash Flows	9
Notes to Financial Statements	10-19



HOLMAN | FRENIA
ALLISON, P.C.

Certified Public Accountants & Consultants

10 Allen Street, Suite 203, Toms River, NJ 08753 • Tel: 732.797.1333
618 Stokes Road, Medford, NJ 08055 • Tel: 609.953.0612
912 Highway 33, Suite 2, Freehold, NJ 07728 • Tel: 732.409.0800
795 Canton Street, Troy, PA 18947 • Tel: 570.297.5080
926 Main Street, Suite 103, Rome, PA 18837 • Tel: 570.297.5090
www.hfacpas.com

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of Habitat for Humanity Philadelphia, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities, functional expenses and cash flows for the years 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.

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Philadelphia, Inc. as of June 30, 2014 and 2013, 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.

HOLMAN FRENIA ALLISON

HOLMAN FRENIA ALLISON, P.C.

Certified Public Accountants

December 08, 2014
Toms River, New Jersey

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Financial Position
June 30, 2014 and 2013

ASSETS	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents	\$ 1,443,173	\$ 586,417
Investments	66,660	42,611
Mortgage receivable - current portion net of accumulated amortization of \$137,812 and \$158,616, respectively	176,544	198,009
Accounts receivable, net allowance for doubtful accounts of \$5,732 and \$0, respectively	76,829	-
Construction in progress	813,397	485,998
Prepaid expenses	27,419	21,796
Other current assets	239,127	507,529
	<u>2,843,149</u>	<u>1,842,360</u>
Buildings and equipment:		
Land	5,000	5,000
Buildings and improvements	274,466	225,377
Office equipment and furnishings	110,629	99,807
Construction equipment	27,728	27,728
Transportation equipment	67,504	67,504
	<u>485,327</u>	<u>425,416</u>
Less: accumulated depreciation	<u>(270,461)</u>	<u>(227,568)</u>
Property and equipment, net	<u>214,866</u>	<u>197,848</u>
Other Assets:		
Completed houses under lease purchase	85,000	85,000
Deposits	16,171	16,171
Loan origination fee, net of accumulated amortization of \$19,583 and \$15,386, respectively	43,363	47,560
Mortgage receivable net of accumulated amortization of \$2,201,440 and \$2,657,649, respectively	2,011,626	2,411,914
Investment in HFHI-SA Leverage III, LLC	1,429,222	1,374,902
	<u>3,585,382</u>	<u>3,935,547</u>
Total other assets	<u>3,585,382</u>	<u>3,935,547</u>
Total assets	<u><u>\$ 6,643,397</u></u>	<u><u>\$ 5,975,755</u></u>

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

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Financial Position (continued)
June 30, 2014 and 2013

	2014	2013
LIABILITIES		
Current liabilities:		
Accounts payable	\$ 45,080	\$ 71,858
Accrued payroll and payroll taxes	65,209	56,581
Accrued expenses	85,658	25,395
Notes payable - current	309,709	47,745
Total current liabilities	505,656	201,579
Long-term liabilities:		
Escrow deposits	104,687	72,669
Notes payable	1,743,405	2,052,962
Total long-term liabilities	1,848,092	2,125,631
Total liabilities	2,353,748	2,327,210
NET ASSETS		
Unrestricted	4,090,782	3,452,101
Temporarily restricted	198,867	196,444
Total net assets	4,289,649	3,648,545
Total liabilities and net assets	\$ 6,643,397	\$ 5,975,755

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

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Activities
For the year ended June 30, 2014

	2014		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Sales to homeowners	\$ 826,849	\$ -	\$ 826,849
Individuals	359,376	101,395	460,771
Corporations and Foundations	115,926	813,564	929,490
Government	263,797	-	263,797
Churches and schools	18,411	56,302	74,713
Legacies and bequests	11,947	-	11,947
Amortization of mortgage discount	966,953	-	966,953
Interest	1,986	-	1,986
Donated materials and supplies	99,059	-	99,059
Fundraising	292,083	-	292,083
Restore	415,540	-	415,540
Home repairs	116,953	-	116,953
Other revenue	107,894	-	107,894
Realized gain (loss) on investments	52	-	52
Unrealized gain (loss) on investments	12,701	-	12,701
Net assets released from restrictions	968,838	(968,838)	-
	<u>4,578,365</u>	<u>2,423</u>	<u>4,580,788</u>
Total revenues and support			
Expenses:			
Program	3,153,414	-	3,153,414
Administrative	321,480	-	321,480
Fundraising	464,790	-	464,790
	<u>3,939,684</u>	<u>-</u>	<u>3,939,684</u>
Total expenses			
Change in net assets	<u>638,681</u>	<u>2,423</u>	<u>641,104</u>
Net assets, beginning of year	<u>3,452,101</u>	<u>196,444</u>	<u>3,648,545</u>
Net assets, end of year	<u>\$ 4,090,782</u>	<u>\$ 198,867</u>	<u>\$ 4,289,649</u>

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

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Activities
For the year ended June 30, 2013

	2013		
	Unrestricted	Temporarily Restricted	Total
Support and revenue:			
Sales to homeowners	\$ 508,588	\$ -	\$ 508,588
Individuals	302,260	5,681	307,941
Corporations and Foundations	175,857	666,025	841,882
Government	238,594	-	238,594
Churches and schools	17,189	50,510	67,699
Legacies and bequests	440,000	-	440,000
Amortization of mortgage discount	199,533	-	199,533
Interest	833	-	833
Donated materials and supplies	120,902	-	120,902
Donated buildings	25,000	-	25,000
Fundraising	222,365	-	222,365
Restore	364,064	-	364,064
Home repairs	137,111	-	137,111
Other revenue	35,919	-	35,919
Realized gain (loss) on investments	(40)	-	(40)
Unrealized gain (loss) on investments	3,471	-	3,471
Net assets released from restrictions	570,051	(570,051)	-
Total revenues and support	<u>3,361,697</u>	<u>152,165</u>	<u>3,513,862</u>
Expenses:			
Program	2,115,820	-	2,115,820
Administrative	334,994	-	334,994
Fundraising	320,133	-	320,133
Total expenses	<u>2,770,947</u>	<u>-</u>	<u>2,770,947</u>
Change in net assets	<u>590,750</u>	<u>152,165</u>	<u>742,915</u>
Net assets, beginning of year	<u>2,861,351</u>	<u>44,279</u>	<u>2,905,630</u>
Net assets, end of year	<u>\$ 3,452,101</u>	<u>\$ 196,444</u>	<u>\$ 3,648,545</u>

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

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Functional Expenses
For the year ended June 30, 2014

	Total	Program Services	Management and General	Fundraising
Americorps	\$ 120,970	\$ 110,703	\$ -	\$ 10,267
Bank fees	21,622	5,983	15,131	508
Construction costs	1,148,967	1,145,779	2,275	913
Depreciation	42,893	32,808	10,085	-
Dues and subscriptions	6,883	3,809	3,074	-
Employee benefits	121,381	90,281	4,733	26,367
Fundraising	97,631	6,339	100	91,192
Insurance	83,381	82,431	794	156
Interest	31,951	-	31,951	-
Loan origination fee amortization	9,670	-	9,670	-
Miscellaneous	48,573	16,625	30,226	1,722
Mortgage amortization	829,948	829,948	-	-
Office expense	36,212	11,367	24,098	747
Payroll	855,968	521,678	50,044	284,246
Payroll service	2,542	-	2,542	-
Payroll taxes	96,141	63,646	5,097	27,398
Postage and delivery	7,788	793	4,681	2,314
Printing	22,975	3,216	2,543	17,216
Professional fees	66,272	9,095	57,177	-
Program expenses	51,099	45,709	5,390	-
Rent	69,072	69,072	-	-
Telephone	22,444	8,183	14,261	-
Tithe	34,248	2,348	31,900	-
Training and education	9,145	6,122	2,268	755
Travel	72,818	69,274	2,756	788
Utilities	28,605	18,194	10,411	-
Website	485	11	273	201
Total expenses	\$ 3,939,684	\$ 3,153,414	\$ 321,480	\$ 464,790

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

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statement of Functional Expenses
For the year ended June 30, 2013

	Total	Program Services	Management and General	Fundraising
Americorps	\$ 73,159	\$ 73,159	\$ -	\$ -
Bank fees	27,835	7,080	19,367	1,388
Construction costs	802,602	802,602	-	-
Depreciation	27,874	21,619	6,255	-
Dues and subscriptions	2,934	1,215	1,719	-
Employee benefits	104,819	75,317	5,943	23,559
Fundraising	55,616	4,432	656	50,528
Insurance	69,367	68,003	829	535
Interest	47,355	-	47,355	-
Loan origination fee amortization	4,196	-	4,196	-
Miscellaneous	46,392	8,701	36,377	1,314
Mortgage amortization	311,349	311,349	-	-
Office expense	36,647	15,805	20,412	430
Payroll	728,322	481,769	41,928	204,625
Payroll service	2,298	-	2,298	-
Payroll taxes	87,372	61,111	4,564	21,697
Postage and delivery	5,502	768	3,096	1,638
Printing	17,055	4,295	918	11,842
Professional fees	72,073	6,432	65,641	-
Program expenses	35,111	29,133	5,978	-
Rent	64,106	64,106	-	-
Telephone	21,827	5,771	15,522	534
Tithe	26,000	-	26,000	-
Training and education	17,279	6,643	9,493	1,143
Travel	46,779	44,233	1,646	900
Utilities	26,617	17,476	9,141	-
Website	10,461	4,801	5,660	-
Total expenses	\$ 2,770,947	\$ 2,115,820	\$ 334,994	\$ 320,133

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

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Statements of Cash Flows
For the years ended June 30, 2014 and 2013

	2014	2013
Cash flows from operating activities:		
Change in net assets	\$ 641,104	\$ 742,915
Items which did not use cash:		
Depreciation	42,893	27,874
Donation of fixed assets	-	(100,467)
Donation of construction in progress	(95,059)	(25,000)
Unrealized gain on investments	12,701	3,471
Amortization of mortgage discount	(483,263)	111,816
Amortization of loan origination fee	9,670	4,196
Working capital changes which (used) provided cash:		
Mortgage receivable	905,016	(182,231)
Construction in progress	(232,340)	91,633
Prepaid expenses	(5,623)	(6,726)
Other current assets	191,573	(492,400)
Deposits	-	1,485
Accounts payable	(26,778)	33,836
Accrued payroll and payroll taxes	8,628	28,528
Accrued expenses	60,262	2,632
Escrow and lease deposits	32,018	16,549
	<u>1,060,802</u>	<u>258,111</u>
Cash flows from investing activities:		
Purchase of fixed assets	(59,911)	(37,658)
Net increase in investments	(96,543)	(12,564)
	<u>(156,454)</u>	<u>(50,222)</u>
Cash flows from financing activities:		
Repayment of notes payable	(47,592)	(41,205)
	<u>(47,592)</u>	<u>(41,205)</u>
Net increase in cash	856,756	166,684
Cash, beginning of year	586,417	419,733
Cash, end of year	<u>\$ 1,443,173</u>	<u>\$ 586,417</u>
Other Supplementary Information:		
Interest paid	<u>\$ 47,355</u>	<u>\$ 47,355</u>

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

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements
For the years ended June 30, 2014 and 2013

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

Habitat for Humanity Philadelphia, Inc. is required to report information regarding its financial position and activities that resources be classified for accounting and reporting purposes into three net asset categories according to externally (donor) imposed restrictions. For the years ended June 30, 2014 and 2013, Habitat for Humanity Philadelphia, Inc., had accounting transactions in two of the net asset categories, as follows:

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. 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, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2014 and 2013

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 a non-profit entity as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, there is no provision for income taxes. The Organization's income tax returns are subject to review and examination by federal, state and local authorities. The Organization is not aware of any activities that would jeopardize its tax-exempt status or any activities that are subject to tax on unrelated business income taxes.

The Organization follows the guidance in the income tax standard regarding the recognition and measurement of uncertain tax positions. The guidance clarifies the accounting for uncertainty in

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2014 and 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

G. Income Taxes (continued)

income taxes recognized in an entity's financial statements. The guidance further prescribes recognition and measurement of tax provisions taken or expected to be taken on a tax return that are not certain to be realized. The application of this standard had no impact on the Organization's financial statements.

The Organization's tax returns are subject to review and examination by federal and state authorities. The tax returns for the years 2011, 2012 and 2013 are open for federal and state tax examinations.

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, 2014 and 2013. 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

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2014 and 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

K. Investment in Joint Venture (continued)

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%.

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.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2014 and 2013

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

L. Fair Value Measurements (continued)

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.

Common Stock – Valued at closing price reported in the active market in which the individual securities are traded.

M. Subsequent Events

The Organization has evaluated subsequent events occurring after the Statement of Financial Position date through the date of December 08, 2014, 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, 2014 and 2013, and reported at fair value, are as follows:

	Carrying Value	
	2014	2013
Deposits:		
Demand Deposits	<u>\$ 1,443,173</u>	<u>\$ 586,417</u>
Total deposits	<u>\$ 1,443,173</u>	<u>\$ 586,417</u>
Reconciliation of Statements of Financial Position		
Current assets:		
Cash and cash equivalents	<u>\$ 1,443,173</u>	<u>\$ 586,417</u>
Total reconciliation	<u>\$ 1,443,173</u>	<u>\$ 586,417</u>

Custodial Credit Risk - Deposits in financial institutions, reported as components of cash had a bank balance of \$1,537,960 and \$614,599 at June 30, 2014 and 2013, respectively. Of the bank balance, \$530,961 and \$505,148 was fully insured by depository insurance at June 30, 2014 and 2013, respectively. \$1,006,999 and \$109,451 was uninsured at June 30, 2014 and 2013, respectively.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2014 and 2013

NOTE 3: CASH (continued)

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, 2014 and 2013, is \$66,660 and \$42,611, respectively.

	<i>Assets at Fair Value as of June 30, 2014</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 66,660	\$ -	\$ -	\$ 66,660
Total assets at fair value	<u>\$ 66,660</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 66,660</u>

	<i>Assets at Fair Value as of June 30, 2013</i>			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Common stocks	\$ 42,611	\$ -	\$ -	\$ 42,611
Total assets at fair value	<u>\$ 42,611</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 42,611</u>

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 \$456 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, 2014 and 2013 were as follows:

	<u>2014</u>	<u>2013</u>
Mortgages receivable	\$4,527,422	\$ 5,426,188
Less: unamortized mortgage discount	<u>(2,339,252)</u>	<u>(2,816,265)</u>
Total net mortgages receivable	2,188,170	2,609,923
Less: current portion	<u>(176,544)</u>	<u>(198,009)</u>
Long-term portion	<u>\$ 2,011,626</u>	<u>\$ 2,411,914</u>

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2014 and 2013

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, 2014 and 2013 was \$813,397 and \$485,998, respectively.

NOTE 7: OTHER CURRENT ASSETS

The following consisted of other current assets as of June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
Bequest receivable	\$ 40,000	\$ 445,077
Grant receivables	17,369	39,527
Prepaid gift cards	15,250	-
Building Hope Luncheon	86,508	22,925
Housing subsidies	<u>80,000</u>	<u>-</u>
Total	<u>\$ 239,127</u>	<u>\$ 507,529</u>

NOTE 8: 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, 2014 and 2013 was \$85,000 and \$85,000, respectively.

NOTE 9: INVESTMENT IN HFHI-SA LEVERAGE III, LLC

For the years ended June 30, 2014 and 2013, the Organization participated in a New Markets Tax Credit (NMTTC) 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, 2014 and 2013

NOTE 10: 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, 2014 and 2013, the Organization was contingently liable for the balance of those mortgages totaling \$198,014 and \$220,844, respectively.

NOTE 11: LINE OF CREDIT

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, 2014 and 2013, there was no balance outstanding on the line.

NOTE 12: NOTES PAYABLE

The Organization had the following notes outstanding at June 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
On June 20, 2013, the Organization refinanced a loan agreement with Habitat for Humanity International, Inc. (HFHI) in the amount of \$212,300 at 3.8%. The loan is to be paid quarterly over 7 years at \$8,670.97 per quarter principal and interest. A reserve fund equal to one quarter worth of principal and interest or \$8,671 was withheld by HFHI. The loan is secured by 12 existing mortgages of the Organization.	\$ 185,302	\$ 212,300
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 9 above).	1,585,101	1,585,101
On February 15, 2013, the Organization refinanced a loan held by Sovereign Bank in the amount of \$309,991 at 3.82%. The loan is to be paid monthly over 2 years at \$2,665 per month, principal and interest, with the total remaining principal balance becoming due after 2 years. The loan is secured by Stiles Street properties.	<u>282,711</u>	<u>303,306</u>
Total net notes payable	2,053,114	2,100,707
Less: current portion	<u>(309,709)</u>	<u>(47,745)</u>
Long-term portion	<u>\$1,743,405</u>	<u>\$2,052,962</u>

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2014 and 2013

NOTE 12: NOTES PAYABLE (continued)

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

2015	\$ 309,709
2016	29,120
2017	1,615,343
2018	31,408
2019	32,618
2020	<u>34,916</u>
Total	<u>\$ 2,053,114</u>

NOTE 13: 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:

	<u>2014</u>	<u>2013</u>
Construction	\$381,602	\$235,600
The Other Carpenter	293,731	121,747
Warehouse roof	49,089	-
Restore	-	120,000
Technology upgrades	10,400	33,010
Strategic planning	4,492	28,137
Weatherization and home repair program	174,375	26,102
Salaries	55,149	5,288
Office Equipment	<u>-</u>	<u>167</u>
Total releases of restrictions	<u>\$968,838</u>	<u>\$570,051</u>

NOTE 14: 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, 2014 and 2013, the Organization made contributions totaling \$34,248 and \$26,000, respectively.

NOTE 15: 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.

HABITAT FOR HUMANITY PHILADELPHIA, INC.
Notes to Financial Statements (continued)
For the years ended June 30, 2014 and 2013

NOTE 16: 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:

2015	\$	63,779
2016		<u>59,534</u>
	\$	<u>123,313</u>

NOTE 17: 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. From the grant award date through June 30, 2014, \$360,000 has been earned and received from this grant.

The Organization was awarded an additional grant on December 18, 2012 in the amount of \$100,000. The award will be paid annually in installments of \$50,000 in December 2012, \$35,000 in December 2013 and \$15,000 in December 2014. The Organization must meet the conditions of the grant agreement. If conditions are not met, the Organization is not entitled to the next annual draw. From the grant award date through June 30, 2014, \$85,000 has been earned and received from this grant.

NOTE 18: THE OTHER CARPENTER

In February 2013, the Organization finalized an agreement with The Other Carpenter, a nonprofit organization. The Other Carpenter dissolved their entity and donated the remaining assets at the time of dissolution to the Organization, which consisted of \$170,000 in cash, miscellaneous inventory, construction equipment and a truck. The agreement also stipulated the Organization is to carry on The Other Carpenter's business. The Organization will carry on a repair program in which low-income applicants may be approved to receive home repairs from the Organization.

NOTE 19: SALE OF MORTGAGE RECEIVABLES

On May 25, 2014, the Organization sold 16 mortgage loans. Under the terms of the transaction, the Organization received the net present value of the remaining payments. In addition, if before the 15th year anniversary of a mortgage loan the mortgaged property is sold, the buyer of the mortgages has agreed to pay to the Organization the difference between the mortgage loan amount, which was amortized over 30 years, and the payoff amount received.

In the event that a loan is delinquent, the Organization has agreed to reimburse the buyer of the mortgages the delinquent amount. As of June 30, 2014, the Organization has elected not to record a reserve amount for this contingent liability due to the mortgage delinquency on the loans sold to be below 1%, which is immaterial to the financial statements.