

Habitat for Humanity of New Castle County, Inc.

Financial Statements
June 30, 2014 and 2013

With
Report of Independent Auditors

Habitat for Humanity of New Castle County, Inc.
Index to Financial Statements
June 30, 2014 and 2013

	Page(s)
Independent Auditors' Report	1 - 2
Financial Statements	
Statements of Financial Position.....	3 - 4
Statements of Activities	5 - 6
Statements of Cash Flows.....	7 - 8
Notes to Financial Statements.....	9 - 19
Additional Information	
Schedule of Functional Expenses 2014.....	20
Schedule of Functional Expenses 2013	21

INDEPENDENT AUDITORS' REPORT

To the Finance Committee of
Habitat for Humanity of New Castle County, Inc.
Wilmington, Delaware

We have audited the accompanying financial statements of Habitat for Humanity of New Castle County, Inc. (a nonprofit organization) which comprise the statements of financial position as of June 30, 2014 and 2013, and the related statements of activities 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 audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of New Castle County, Inc. as of June 30, 2014 and 2013, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The schedules of functional expenses on pages 20-21 are presented for purposes of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audits of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Cetrulo & Morgan Group LLC

Cetrulo & Morgan Group, LLC
September 10, 2014

Habitat for Humanity of New Castle County, Inc.
 Statements of Financial Position
 June 30, 2014 and 2013

	2014	2013
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,454,266	\$ 1,044,846
Restricted cash and cash equivalents	43,030	62,783
Prepaid expenses	40,335	21,073
Investment in joint venture HFHI-SA Leverage III, LLC	2,414,683	2,375,860
Inventory	208,878	144,027
Accounts receivable	16,996	27,370
Pledges and grants receivable, net of discount	753,626	730,993
Total current assets	<u>4,931,814</u>	<u>4,406,952</u>
Non-interest-bearing mortgage receivable:		
Gross non-interest-bearing mortgages receivable	4,400,652	4,600,001
Discount on non-interest-bearing mortgages receivable	<u>(2,290,194)</u>	<u>(2,618,675)</u>
Net non-interest-bearing mortgage receivable	<u>2,110,458</u>	<u>1,981,326</u>
Property and equipment - net	<u>734,020</u>	<u>762,710</u>
Other assets:		
Restricted cash and cash equivalents	114,742	114,503
Intangible assets	75,470	82,773
Pledges and grants receivable, net of discount	-	4,070
Endowment funds	443,830	306,908
Construction in progress	<u>2,589,016</u>	<u>4,671,174</u>
Total other assets	<u>3,223,058</u>	<u>5,179,428</u>
Total assets	<u>\$ 10,999,350</u>	<u>\$ 12,330,416</u>

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

Habitat for Humanity of New Castle County, Inc.
 Statements of Financial Position (Continued)
 June 30, 2014 and 2013

	2014	2013
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 153,434	\$ 182,863
Accounts payable, related party	27,861	20,790
Accrued interest	1,868	1,930
Affordability gap liability	197,497	345,813
Current maturities of capital leases	-	255
Current maturities of notes payable	68,552	7,212
Total current liabilities	<u>449,212</u>	<u>558,863</u>
Other liabilities:		
Note payable to City First Capital 21, LLC	2,758,746	2,758,746
Note payable to HFHI (net of current maturities)	44,323	51,535
City of Wilmington promissory notes	360,300	416,300
Total liabilities	<u>3,612,581</u>	<u>3,785,444</u>
Net assets:		
Unrestricted	6,800,451	8,245,780
Temporarily restricted	486,318	199,192
Permanently restricted	100,000	100,000
Total net assets	<u>7,386,769</u>	<u>8,544,972</u>
Total liabilities and net assets	<u>\$ 10,999,350</u>	<u>\$ 12,330,416</u>

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

Habitat for Humanity of New Castle County, Inc.
 Statements of Activities
 Year Ended June 30, 2014

	Unrestricted	Temporarily Restricted	Permanently Restricted	2014 Total
SUPPORT AND REVENUE				
Contributions	\$ 53,849	\$ 1,152,374	\$ -	\$ 1,206,223
Transfers to homeowners	2,203,202	-	-	2,203,202
Noncash donations for resale at ReStore	783,011	-	-	783,011
Merchandise and ReStore revenues	719,952	-	-	719,952
Less: merchandise and ReStore expenses	(1,303,024)	-	-	(1,303,024)
Event income	192,728	-	-	192,728
Less: event expenses	(71,597)	-	-	(71,597)
Other revenue	7,839	-	-	7,839
Mortgage loan discount amortization	1,064,400	-	-	1,064,400
Interest income	896	-	-	896
Unrealized gain on Investment in joint venture HFHI-SA Leverage III, LLC	61,239	-	-	61,239
Endowment fund income	45,134	-	-	45,134
	<u>3,757,629</u>	<u>1,152,374</u>	<u>-</u>	<u>4,910,003</u>
Net assets released from restrictions	<u>865,248</u>	<u>(865,248)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>4,622,877</u>	<u>287,126</u>	<u>-</u>	<u>4,910,003</u>
EXPENSES				
Program services	5,593,469	-	-	5,593,469
Supporting services:				
Fundraising	263,234	-	-	263,234
Management and general	211,503	-	-	211,503
Total expenses	<u>6,068,206</u>	<u>-</u>	<u>-</u>	<u>6,068,206</u>
Change in net assets	(1,445,329)	287,126	-	(1,158,203)
Net assets - beginning of year	<u>8,245,780</u>	<u>199,192</u>	<u>100,000</u>	<u>8,544,972</u>
Net assets - end of year	<u>\$ 6,800,451</u>	<u>\$ 486,318</u>	<u>\$ 100,000</u>	<u>\$ 7,386,769</u>

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

Habitat for Humanity of New Castle County, Inc.
 Statements of Activities
 Year Ended June 30, 2013

	Unrestricted	Temporarily Restricted	Permanently Restricted	2013 Total
SUPPORT AND REVENUE				
Contributions	\$ 1,080,125	\$ 577,726	\$ -	\$ 1,657,851
Transfers to homeowners	2,412,241	-	-	2,412,241
Noncash donations for resale at ReStore	643,987	-	-	643,987
Merchandise and ReStore revenues	469,834	-	-	469,834
Less: merchandise and ReStore expenses	(913,225)	-	-	(913,225)
Event income	181,134	-	-	181,134
Less: event expenses	(102,213)	-	-	(102,213)
Pass-through loss, net	-	(3,502)	-	(3,502)
Other revenue	16,783	-	-	16,783
Mortgage loan discount amortization	1,105,900	-	-	1,105,900
Interest income	1,351	-	-	1,351
Unrealized gain on Investment in joint venture HFHI-SA Leverage III, LLC	61,239	-	-	61,239
Endowment fund income	22,168	-	-	22,168
	<u>4,979,324</u>	<u>574,224</u>	<u>-</u>	<u>5,553,548</u>
Net assets released from restrictions	<u>578,904</u>	<u>(578,904)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,558,228</u>	<u>(4,680)</u>	<u>-</u>	<u>5,553,548</u>
EXPENSES				
Program services	5,723,798	-	-	5,723,798
Supporting services:				
Fundraising	205,626	-	-	205,626
Management and general	232,051	-	-	232,051
Total expenses	<u>6,161,475</u>	<u>-</u>	<u>-</u>	<u>6,161,475</u>
Change in net assets	(603,247)	(4,680)	-	(607,927)
Net assets - beginning of year	<u>8,849,027</u>	<u>203,872</u>	<u>100,000</u>	<u>9,152,899</u>
Net assets - end of year	<u>\$ 8,245,780</u>	<u>\$ 199,192</u>	<u>\$ 100,000</u>	<u>\$ 8,544,972</u>

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

Habitat for Humanity of New Castle County, Inc.
 Statements of Cash Flows
 Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (1,158,203)	\$ (607,927)
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Depreciation	49,049	43,966
Amortization	7,304	7,304
Net amortization of discount on pledges receivable	-	(23,491)
Endowment fund income	(45,134)	(22,168)
Unrealized gain on Investment in joint venture HFHI-SA Leverage III, LLC	(61,239)	(61,239)
Net mortgage discounts issued	735,919	876,839
Discount on mortgages sold	926,811	1,037,805
Mortgage loan discount amortization	(1,064,400)	(1,105,900)
Transfer to homeowners	(2,203,202)	(2,412,241)
Decreases (increases) in assets		
Restricted cash and cash equivalents	19,753	19,509
Prepaid expenses	(19,262)	(7,470)
Inventory	(64,851)	(96,652)
Accounts receivable	10,374	20,784
Pledges and grants receivable	(166,879)	115,577
Construction in progress	2,082,158	935,355
Increase (decrease) in liabilities		
Accounts payable and accrued expenses	(29,429)	22,519
Accounts payable, related party	7,071	20,790
Accrued interest	(62)	-
Net cash used in operating activities	<u>(974,222)</u>	<u>(1,236,640)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgage payments received	326,793	228,592
Payments received from sale of mortgages	1,148,947	1,284,336
Payments for the purchase of property and equipment	(20,359)	(117,360)
Deposits to endowment funds	(91,788)	-
Interest earned and retained in restricted cash	(239)	(457)
Distributions from investment in joint venture HFHI-SA Leverage III, LLC	22,416	22,415
Net cash provided by investing activities	<u>1,385,770</u>	<u>1,417,526</u>

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

Habitat for Humanity of New Castle County, Inc.
Statements of Cash Flows (Continued)
Years Ended June 30, 2014 and 2013

	2014	2013
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments of capital lease	(255)	(1,012)
Proceeds from notes payable	-	114,744
Repayments of notes payable	(1,872)	(1,872)
Net cash provided by financing activities	(2,127)	111,860
NET INCREASE IN CASH AND CASH EQUIVALENTS	409,421	292,746
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	1,044,846	752,100
CASH AND CASH EQUIVALENTS, END OF YEAR	\$ 1,454,267	\$ 1,044,846
NONCASH INVESTING AND FINANCING ACTIVITIES		
Net reduction in mortgage receivables through receivable swap to satisfy delinquent mortgage re-purchase	\$ 929,380	\$ 183,290
Mortgage receivable satisfied through foreclosure	\$ -	\$ 77,085
OTHER SUPPLEMENTAL DISCLOSURES		
Interest paid	\$ 22,359	\$ 23,249

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

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Purpose - Habitat for Humanity of New Castle County, Inc. (Habitat) (a nonprofit organization) (the "Organization") was incorporated in 1986. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational, Christian, nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat also provides its "A Brush With Kindness" (ABWK) program. ABWK is a nation-wide effort to serve low-income homeowners who struggle to maintain the exterior of their homes. Groups of volunteers work alongside the homeowner to revitalize a home's exterior.

Basis of Accounting - The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of the accrual method of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

Financial Statement Presentation - Accounting principles generally accepted in the United States of America require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

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 revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - Habitat considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Concentration of Credit Risk - Habitat maintains cash and cash equivalents at various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 and the Securities Investor Protection Corporation up to \$100,000. In the normal course of business, the Organization's balances may exceed insured limits. The Organization considers the possibility of incurring losses on these accounts remote.

Inventories - Inventories are valued at a lower of cost or market, with cost determined by the first-in, first-out method.

Escrow Deposits - Escrow deposits are maintained for funds paid to satisfy future contract obligations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable - Unconditional pledges receivable are recognized as revenues or gains in the period received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Provisions for uncollectible receivables are offset against contributions when determined to be uncollectible by management. It is the opinion of management that the expense computed under this method is not materially different than what the expense would be if the allowance method were used. The discount rate used on long-term pledges receivable as of June 30, 2013 was 2.7%. There were no long-term pledges as of June 30, 2014.

Mortgages Receivable - Mortgages receivable consist of non-interest-bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage.

Property and Equipment - Property and equipment purchased are capitalized at cost. Property and equipment are depreciated using the straight-line method.

Endowment Fund - Investments in the endowment fund are reported at their fair market values in the statements of financial position. Donated securities are reported at fair market value as of the date of donation. All realized and unrealized gains and losses arising from fluctuations in market value, sales or other dispersion of assets are accounted for in their net asset classification.

The endowment fund is invested with the Delaware Community Foundation (DCF). The endowment fund's income is available to Habitat for its use in operations. DCF, through its duly authorized officers of the Board of Directors, reserves the right to make the final decisions regarding distributions to Habitat.

Revenue Recognition - Contributions received are recorded as unrestricted, temporarily or permanently restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases in temporarily or permanently restricted net assets. When a temporary restriction expires, the net assets are reclassified to unrestricted net assets as net assets released from restrictions in the statements of activities.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Habitat reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Habitat reclassifies temporarily restricted new assets to unrestricted net assets at that time.

Other Revenue - Other income includes miscellaneous income and income from lease of a duplex to Habitat affiliates and to individuals.

Functional Allocation of Expenses - The costs of providing various programs and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Temporarily Restricted Net Assets - The Organization reports donor-restricted support as temporarily restricted if such support is received with stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributed Services - Contributed services are not recognized as revenues unless the services received create or enhance the value of a non-financial asset; or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by volunteers. A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, where provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenue and expense. There were no contributed services for the years ended June 30, 2014 and 2013, respectively.

Transfers to Homeowners - Transfers to homeowners are recorded at the gross mortgage amount plus down payment received. Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as mortgage loan discount amortization income over the term of the mortgage.

Home Construction Costs - Costs incurred in conjunction with home construction are capitalized as construction in progress. Capitalized construction costs are expensed when ownership transfers to the homeowners. Any post-settlement costs are expensed as incurred.

Tax-exempt status - Habitat is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, Habitat qualifies for the charitable contribution deduction under Section 107(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

On January 1, 2009 the Organization adopted accounting policies relating to uncertainty in income taxes. This policy requires organizations to recognize, measure, present, and disclose uncertain tax positions that have been or are expected to be taken, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of the application of these policies, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. As of June 30, 2014 and 2013, the Organization had no uncertain tax positions requiring disclosure. The Organization's open audit periods are the current and three preceding years.

Fair Value Measurements - U.S. generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fair Value Measurements (continued) -

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes to the methodologies used at June 30, 2014 and 2013.

Pooled Investments: Valued at the unit value which is based on the fair value of the underlying investments in the portfolio.

Partnerships: Cost method

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

Reclassifications – Certain reclassifications have been made to the 2013 financial statements to provide comparability with the current period's presentation. The reclassifications have no effect on the change in net assets for the year ended June 30, 2013.

Subsequent Events - In preparing these financial statements, management has evaluated events and transactions for potential recognition or disclosure through September 10, 2014, the date the financial statements were available to be issued. No such adjustments or disclosures were judged to be necessary at June 30, 2014.

Habitat for Humanity of New Castle County, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

2. RESTRICTED CASH AND CASH EQUIVALENTS

At June 30, 2014 and 2013, the Organization held \$43,030 and \$62,783, respectively, in separate bank accounts as a condition of the loan agreement to pay fees related to the Citi First Capital 21, LLC loan.

At June 30, 2014 and 2013, the Organization held \$114,742 and \$114,503, respectively, in a separate money market reserve account to satisfy conditions of a mortgage sale agreement to repurchase delinquent loans.

3. TRANSACTIONS WITH RELATED PARTIES

Habitat annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically-depressed areas around the world. For the years ended June 30, 2014 and 2013, Habitat contributed \$35,565 and \$33,333, respectively, to Habitat International. Such amounts are included in program services expense in the statements of activities. As of June 30, 2014 and 2013, \$27,861 and \$20,790, respectively, were owed to Habitat International.

4. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Land	\$ 152,523	\$ 152,523
Buildings and improvements	781,327	771,558
Trucks and equipment	<u>192,149</u>	<u>181,559</u>
	1,125,999	1,105,640
Less: accumulated depreciation	<u>391,979</u>	<u>342,930</u>
Net property and equipment	<u>\$ 734,020</u>	<u>\$ 762,710</u>

Depreciation expense for the years ended June 30, 2014 and 2013 was \$49,049 and \$43,966, respectively, of which \$16,093 and \$13,379, respectively, is related to ReStore fixed assets and included with ReStore expenses on the statement of activities.

5. INTANGIBLE ASSETS

Intangible assets consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
Loan origination fees	\$ 109,552	\$ 109,552
Less: accumulated amortization	<u>34,082</u>	<u>26,779</u>
Net intangible assets	<u>\$ 75,470</u>	<u>\$ 82,773</u>

Habitat for Humanity of New Castle County, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

5. INTANGIBLE ASSETS (CONTINUED)

Amortization expense for the years ended June 30, 2014 and 2013 was \$7,304.

6. PLEDGES AND GRANTS RECEIVABLE

Unconditional promises to give consisted of the following as of June 30:

	<u>2014</u>	<u>2013</u>
United Way Services	\$ -	\$ 19,133
Restricted to local homes	<u>753,626</u>	<u>715,930</u>
Unconditional pledges receivable	<u>\$ 753,626</u>	<u>\$ 735,063</u>

7. ENDOWMENT FUND

The endowment fund consists of pooled investments managed by the Delaware Community Foundation (DCF). Habitat is the primary income beneficiary and the principal is permanently restricted. DCF through its duly authorized officers of the board of directors reserves the right to make the final decision regarding distributions to Habitat. Endowment fund activity consisted of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 306,908	\$ 284,740
Contributions	91,788	-
Endowment fund income	<u>45,134</u>	<u>22,168</u>
Ending balance	<u>\$ 443,830</u>	<u>\$ 306,908</u>

Investments in the endowment fund consist of income mutual funds and investments in hedge funds.

Endowment fund income consisted of the following for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Unrealized gain	\$ 43,542	\$ 19,624
Income earned	6,774	7,182
Administrative and investment fees	<u>(5,182)</u>	<u>(4,638)</u>
Endowment fund income	<u>\$ 45,134</u>	<u>\$ 22,168</u>

8. INVESTMENTS

Investment in Joint Venture HFHI-SA Leverage III, LLC - In 2010, Habitat invested, along with 10 other Habitat affiliates, in a joint venture (HFHI-SA Leverage III, LLC) with thirteen percent (13%) 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 market tax credits to be applied against their federal tax liability. 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. As a result, Habitat has invested \$2,264,791 and was able to secure a 15-year loan in the amount of \$2,758,746 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%.

In 2010 Habitat recorded its 13% investment in HFHI-SA Leverage III, LLC at the cost of investment plus transaction costs, expendable construction funds, escrow cash, and program cost liabilities.

In December, 2016 City First Capital Investment Fund 21, 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.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below presents the Organization's assets measured at fair value on a recurring basis by level within the fair value hierarchy:

Description	Fair Value Measurements at June 30, 2014 Using		
	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments in pooled accounts	\$ -	\$ 443,830	\$ -
Investment in partnership	\$ -	\$ -	\$ 2,414,683

Habitat for Humanity of New Castle County, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

9. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTINUED)

Description	Fair Value Measurements at June 30, 2013 Using		
	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3
Investments in pooled accounts	\$ -	\$ 306,908	\$ -
Investment in partnership	\$ -	\$ -	\$ 2,375,860

10. LINE OF CREDIT

Habitat has a revolving line of credit with a local financial institution in the amount of \$300,000. The line incurs interest at the bank's prime rate less 1% annually on all outstanding balances. No amounts were outstanding on the line as of June 30, 2014 and 2013. The line of credit has been renewed with an expiry date of February 28, 2015.

11. NOTES PAYABLE

Habitat is obligated for the following notes payable as of June 30:

	2014		2013	
	Current	Long-term	Current	Long-term
Habitat for Humanity International, Inc. -- Interest free note payable, payable in monthly installments of \$156 starting January 2012 through November 2015 with a balloon payment of \$168 due December 2015.	\$ 1,872	\$ 1,884	\$ 1,872	\$ 3,756
Habitat for Humanity International, Inc. -- Interest free note payable, payable in monthly installments of \$445 starting July 2013 through May 2017 with a balloon payment of \$460 due June 2017.	10,680	10,695	5,340	16,035

Habitat for Humanity of New Castle County, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

11. NOTES PAYABLE (CONTINUED)

Habitat for Humanity of New Castle County has six promissory notes with the City of Wilmington. Each note is in the amount of \$55,550 totaling \$333,300. The notes do not require principal payments and accrue interest at 5%. The notes mature November 2027.

-	333,300	-	333,300
---	---------	---	---------

New Castle County - Note payable at 5.0%. Note requires payments of interest only until March 25, 2016 at which time a balloon payment of all principal and interest will be due.

-	21,000	-	21,000
---	--------	---	--------

New Castle County - Note payable at 5.0%. Note requires payments of interest only until December 25, 2014 at which time a balloon payment of all principal and interest will be due.

56,000	-	-	56,000
--------	---	---	--------

New Castle County - Note payable at 5.0%. Note requires payments of interest only until April 25, 2016 at which time a balloon payment of all principal and interest will be due.

-	6,000	-	6,000
---	-------	---	-------

Habitat for Humanity International, Inc.
- Interest free note payable, payable in monthly installments of \$661 starting July 2015 through May 2019 with a balloon payment of \$678 due June 2019.

-	31,744	-	31,744
---	--------	---	--------

City First Capital 21, LLC - Note payable at 0.8126%. Semi-annual interest-only payments commencing on December 1, 2009 through December 1, 2016. Commencing on December 1, 2016, semi-annual payments in an amount sufficient to fully amortize the remaining principal balance over 8 years.

-	2,758,746	-	2,758,746
---	-----------	---	-----------

Habitat for Humanity of New Castle County, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

11. NOTES PAYABLE (CONTINUED)

Total notes payable	\$ 68,552	\$ 3,163,369	\$ 7,212	\$ 3,226,581
---------------------	-----------	--------------	----------	--------------

Aggregate principal maturities of long-term debt are as follows:

Within 12 months	\$ 68,552
Within 13 – 24 months	42,156
Within 25 – 36 months	348,406
Within 37 – 48 months	345,784
Within 49 – 60 months	345,800
61 months and thereafter	<u>2,081,223</u>
	<u>\$ 3,231,921</u>

Interest expense for the years ended June 30, 2014 and 2013 was \$22,359 and \$23,249, respectively.

12. OPERATING LEASE

The Organization has an operating lease agreement for the ReStore with monthly payments of \$13,750 expiring in March 2022. Rental expense under this lease was \$165,000 and \$136,330 for the years ended June 30, 2014 and 2013, respectively.

During the fiscal year ending June 30, 2014, the Organization entered into a lease for office equipment under a non-cancelable operating lease with monthly payments totaling \$191, which expires July 2018. Rental expense under this lease was \$764.

The following is a schedule by years of future minimum payments for the non-cancelable operating leases described above for the years ending June 30:

2015	167,291
2016	167,291
2017	168,529
2018	172,241
2019	170,141
Thereafter	<u>467,362</u>
TOTAL	<u>1,312,855</u>

13. COMMITMENTS AND CONTINGENCIES

During the years ended June 30, 2014 and 2013, Habitat sold mortgages with principal balances totaling \$2,685,176 and \$2,138,851, respectively for cash payments of \$1,555,153 and \$1,284,336, respectively. Habitat is required to repurchase any mortgage loan that becomes 120 days past due. Habitat is notified regularly of delinquent mortgages that are at risk of repurchase. During the years ended June 30, 2014 and 2013, the Organization was required to re-purchase \$609,514 and \$1,015,154, respectively, in delinquent

Habitat for Humanity of New Castle County, Inc.
Notes to Financial Statements
June 30, 2014 and 2013

13. COMMITMENTS AND CONTINGENCIES (CONTINUED)

mortgage receivables. In lieu of cash payment, the Organization swapped current mortgage receivables in the amount of \$1,018,287 and \$1,201,360, respectively, to satisfy the re-purchase of the delinquent mortgages. The Organization maintains a restricted bank account to satisfy any mortgages that are in excess of 120 days past due and are required to be repurchased.

14. NET ASSETS RELEASED FROM TEMPORARILY RESTRICTED NET ASSETS

Net assets released from donor restrictions by incurred expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows for the years ended June 30:

	<u>2014</u>	<u>2013</u>
Purpose restrictions accomplished:		
Construction of homes	\$ 842,348	\$ 539,212
A Brush With Kindness	22,900	39,692
Total releases from restrictions	<u>\$ 865,248</u>	<u>\$ 578,904</u>

Net assets were temporarily restricted for the following purposes as of June 30:

	<u>2014</u>	<u>2013</u>
Construction of homes	\$ 421,649	\$ 199,192
A Brush With Kindness	64,669	-
Total temporarily restricted net assets	<u>\$ 485,318</u>	<u>\$ 199,192</u>

15. HOME CONSTRUCTION COSTS

Following is a summary of home building activity:

	<u>Number</u>	<u>Costs</u>
Homes under construction – July 1, 2012	34	\$ 5,529,444
Homes transferred during the year	(17)	(2,412,241)
Costs incurred in homes under construction	9	1,553,971
Homes under construction – June 30, 2013	<u>26</u>	<u>\$ 4,671,174</u>
Homes under construction – July 1, 2013	26	\$ 4,671,174
Homes transferred during the year	(17)	(2,203,202)
Costs incurred in homes under construction	16	121,044
Homes under construction – June 30, 2014	<u>25</u>	<u>\$ 2,589,016</u>

Habitat for Humanity of New Castle County, Inc.
 Schedule of Functional Expenses
 Year Ended June 30, 2014

	Program Services				Supporting Services			2014 Total Expenses
	Construction	Discounts on Mortgage Originations	A Brush With Kindness	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 385,031	\$ -	\$ 57,588	\$ 442,619	\$ 240,852	\$ 110,122	\$ 350,974	\$ 793,593
Building materials and supplies	3,237,387	-	-	3,237,387	-	-	-	3,237,387
Administrative construction cost	48,878	-	-	48,878	-	30,730	30,730	79,608
Tithe to habitat international	35,565	-	-	35,565	-	-	-	35,565
Professional services	-	-	-	-	-	16,798	16,798	16,798
Mortgage discounts	-	1,663,063	-	1,663,063	-	-	-	1,663,063
HFHI Franchise Fee	-	-	-	-	-	5,000	5,000	5,000
Fundraising	-	-	-	-	22,382	-	22,382	22,382
Loan servicing fees	-	-	-	-	-	24,924	24,924	24,924
Depreciation	18,438	-	-	18,438	-	14,518	14,518	32,956
Amortization	-	-	-	-	-	7,304	7,304	7,304
Telephone	12,449	-	-	12,449	-	-	-	12,449
Occupancy	-	-	-	-	-	2,107	2,107	2,107
Training	25,176	-	-	25,176	-	-	-	25,176
Miscellaneous	-	-	109,894	109,894	-	-	-	109,894
	<u>\$ 3,762,924</u>	<u>\$ 1,663,063</u>	<u>\$ 167,482</u>	<u>\$ 5,593,469</u>	<u>\$ 263,234</u>	<u>\$ 211,503</u>	<u>\$ 474,737</u>	<u>\$ 6,068,206</u>

Habitat for Humanity of New Castle County, Inc.
 Schedule of Functional Expenses
 Year Ended June 30, 2013

	Program Services				Supporting Services			2013 Total Expenses
	Construction	Discounts on Mortgage Originations	A Brush With Kindness	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 571,572	\$ -	\$ 59,174	\$ 630,746	\$ 145,916	\$ 106,965	\$ 252,881	\$ 883,627
Building materials and supplies	3,022,821	-	-	3,022,821	-	-	-	3,022,821
Administrative construction cost	48,506	-	-	48,506	-	30,312	30,312	78,818
Tithe to habitat international	33,333	-	-	33,333	-	-	-	33,333
Professional services	-	-	-	-	-	45,505	45,505	45,505
Mortgage discounts	-	1,914,644	-	1,914,644	-	-	-	1,914,644
Fundraising	-	-	-	-	57,408	-	57,408	57,408
Loan servicing fees	-	-	-	-	-	21,407	21,407	21,407
Depreciation	14,810	-	-	14,810	-	15,777	15,777	30,587
Amortization	-	-	-	-	-	7,304	7,304	7,304
Telephone	7,866	-	-	7,866	2,302	959	3,261	11,127
Occupancy	-	-	-	-	-	3,822	3,822	3,822
Training	28,150	-	-	28,150	-	-	-	28,150
Miscellaneous	-	-	22,922	22,922	-	-	-	22,922
	<u>\$ 3,727,058</u>	<u>\$ 1,914,644</u>	<u>\$ 82,096</u>	<u>\$ 5,723,798</u>	<u>\$ 205,626</u>	<u>\$ 232,051</u>	<u>\$ 437,677</u>	<u>\$ 6,161,475</u>