

**HABITAT FOR HUMANITY
OF HILLSBOROUGH COUNTY FLORIDA, INC.**

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITORS' REPORT**

JUNE 30, 2014



FINANCIAL STATEMENTS
JUNE 30, 2014

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Hillsborough County Florida, Inc.
Tampa, Florida

We have audited the accompanying financial statements of Habitat for Humanity of Hillsborough County Florida, Inc. (a Not-For-Profit Entity), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

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 of Hillsborough County Florida, Inc. as of June 30, 2014, 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.

Accell Audit & Compliance, PA

Tampa, Florida
November 14, 2014

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
STATEMENT OF FINANCIAL POSITION
AS OF JUNE 30, 2014

ASSETS

Current assets	
Cash and cash equivalents	\$ 279,711
Assets held in escrow	62,126
Pledges receivable	66,715
Other receivables	51,303
Prepaid expenses	12,965
Mortgage notes receivable net of discounts, due within one year	26,005
Inventory - construction and ReStore	43,548
Mortgages in process of foreclosure	178,000
Total current assets	<u>720,373</u>
Non-current assets	
Mortgage notes receivable net of discounts, due after one year	980,915
Inventory - land held for development	168,017
Property and equipment, net	656,480
Deposits	2,206
Total non-current assets	<u>1,807,618</u>
Total assets	<u>\$ 2,527,991</u>

LIABILITIES AND NET ASSETS

Current liabilities	
Accounts payable	\$ 38,764
Accrued expenses	61,651
Escrow funds payable	62,126
Agency payable	80,850
Current portion of note payable - related party	5,616
Current portion of long-term debt	15,488
Total current liabilities	<u>264,495</u>
Long-term liabilities	
Note payable - related party, less current portion	11,615
Long-term debt, less current portion	209,799
Total long-term liabilities	<u>221,414</u>
Total liabilities	<u>485,909</u>
Net assets	
Unrestricted	2,017,082
Temporarily restricted	25,000
Total net assets	<u>2,042,082</u>
Total liabilities and net assets	<u>\$ 2,527,991</u>

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

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
PUBLIC SUPPORT AND REVENUE			
Public support			
ReStore sales, net	\$ 859,987	\$ -	\$ 859,987
Grant Funding	423,143	-	423,143
Contributions	200,360	180,490	380,850
In-kind contributions	272,478	45,450	317,928
Special Events	-	60,623	60,623
	<u>1,755,968</u>	<u>286,563</u>	<u>2,042,531</u>
Other revenue			
Sales of homes and land	1,005,932	-	1,005,932
Mortgage discount amortization	6,829	-	6,829
Gain on sale of assets	4,200	-	4,200
Other	35,572	-	35,572
	<u>1,052,533</u>	<u>-</u>	<u>1,052,533</u>
Net assets released from restrictions	<u>283,899</u>	<u>(283,899)</u>	<u>-</u>
Total public support and other revenue	<u>3,092,400</u>	<u>2,664</u>	<u>3,095,064</u>
EXPENSES			
Program services	3,163,980	-	3,163,980
Supporting services:			
Management and general	345,521	-	345,521
Fundraising	158,163	-	158,163
	<u>3,667,664</u>	<u>-</u>	<u>3,667,664</u>
Loss on impairment of mortgages in process of foreclosure	<u>174,573</u>	<u>-</u>	<u>174,573</u>
Total functional expenses and loss	3,842,237	-	3,842,237
Change in net assets	(749,837)	2,664	(747,173)
Net assets, beginning of year	<u>2,766,919</u>	<u>22,336</u>	<u>2,789,255</u>
Net assets, end of year	<u>\$ 2,017,082</u>	<u>\$ 25,000</u>	<u>\$ 2,042,082</u>

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

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services			Supporting Services			TOTAL	
	Rehab and Construction	Family Services	ReStore	Total Program Services	Fundraising	Management and General		Total Supporting Services
Personnel expenses	\$ 91,010	\$ 84,202	\$ 365,727	\$ 540,939	\$ 126,349	\$ 213,872	\$ 340,221	\$ 881,160
Other Expenses								
Cost of home/land sales	1,867,370	-	-	1,867,370	-	-	-	1,867,370
Admin and general	16,440	31,413	64,715	112,568	13,195	83,088	96,283	208,851
Facilities	19,486	8,008	63,392	90,886	414	24,539	24,953	115,839
Home rehabilitation	96,171	-	-	96,171	-	-	-	96,171
Cost of goods sold, Restore	-	-	39,368	39,368	-	-	-	39,368
Special events	8,403	1,914	634	10,951	6,350	-	6,350	17,301
Interest	-	-	-	-	-	10,786	10,786	10,786
Fundraising	-	-	-	-	10,010	-	10,010	10,010
Other	313	1,621	16,760	18,694	1,845	4,049	5,894	24,588
Total expenses before Other non-cash items	2,099,193	127,158	550,596	2,776,947	158,163	336,334	494,497	3,271,444
Discount on mortgages issued	378,903	-	-	378,903	-	-	-	378,903
Depreciation	1,825	-	6,305	8,130	-	9,187	9,187	17,317
Total Functional Expenses	\$ 2,479,921	\$ 127,158	\$ 556,901	\$ 3,163,980	\$ 158,163	\$ 345,521	\$ 503,684	\$ 3,667,664

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

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES:

Change in net assets	\$ (747,173)
Adjustments to reconcile change in net assets to net cash flows from operating activities:	
Long-term debt released from liability	(186,000)
Depreciation	17,317
Loss on impairment of mortgages in process of foreclosure	174,573
Gain on sales of assets	(4,200)
(Increase) decrease in assets:	
Assets held in escrow	7,817
Pledges receivable	(37,715)
Other receivables	(5,040)
Prepaid expenses	5,877
Mortgage notes receivable, net of discounts	(439,729)
Inventory - construction and ReStore	1,137,445
Mortgages in process of foreclosure	12,189
Inventory - land held for development	61,297
Deposits	1,763
Increase (decrease) in liabilities:	
Accounts payable	(7,006)
Accrued expenses	44,960
Escrow funds payable	(7,817)
Agency payable	(8,546)
Total Adjustments	<u>767,185</u>
Net cash from operating activities	<u>20,012</u>

CASH FLOWS FROM INVESTING ACTIVITIES:

Proceeds from sale of property and equipment	1,300
Acquisition of property and equipment	<u>(2,755)</u>
Net cash used in investing activities	<u>(1,455)</u>

CASH FLOWS FROM FINANCING ACTIVITIES:

Proceeds from refinancing long-term debt	106,836
Proceeds from assets held for sale	55,212
Payments on note payable - related party	(2,808)
Payments on line of credit	(102,000)
Payments on long-term debt	<u>(18,835)</u>
Net cash from financing activities	<u>38,405</u>

Net change in cash and cash equivalents	56,962
Cash and cash equivalents, beginning of year	<u>222,749</u>
Cash and cash equivalents, end of year	<u>\$ 279,711</u>

SUPPLEMENTAL DISCLOSURE OF CASH PAID FOR INTEREST	<u>\$ 10,786</u>
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See independent auditors' report and accompanying notes to the financial statements.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 1 NATURE OF ORGANIZATION

Habitat for Humanity International, Inc. ("HFHI") was founded in 1976 by Millard and Linda Fuller. The concept of Habitat for Humanity is that each Habitat Affiliate and those in need of adequate shelter would work side-by-side with volunteers to build simple, decent homes. Habitat for Humanity of Hillsborough County Florida, Inc. ("Habitat" or the "Organization") became an Affiliate in 1987 and is a tax-exempt Not-for-Profit organization. The mission of Habitat, in partnership with God, is to mobilize people to help neighbors by renovating and building homes, thereby improving and transforming families and communities within Hillsborough County.

Habitat's Program Services include its home construction program, a thrift retail operation (d.b.a. the ReStore), and family service programs, all of which are provided principally to residents in Hillsborough County.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP") and, accordingly, reflect all significant receivables, payables and other liabilities.

Basis of Presentation

Habitat has adopted the Financial Accounting Standards Board ("FASB") Accounting Standards Codification Topic 958, *Not-for-Profit Entities* ("ASC 958"). Under ASC 958, Habitat is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions. As such, Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and, if applicable, permanently restricted net assets.

Revenue Recognition

Contributions are recognized as revenue when the gifts' underlying promises are received by Habitat. Habitat reports contributions of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets to a specific time period or a specific purpose. 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.

Sales of homes and land represent homes built by Habitat or property donated to Habitat. When homes are sold to qualified buyers who finance the purchase, the resulting mortgage notes are zero-interest bearing and discounted based upon prevailing market rates at the inception of the mortgages. The gross sale amount is included in the sale of homes and land in the statement of activities and the applicable discount from these notes is presented as the discount on mortgages issued in the statement of activities. When homes or land are sold to qualified buyers in the form of a cash sale, the gross sale amount is included in the sale of homes and land in the

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
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statement of activities. Habitat recognizes the income from the sale of homes and land on the completed contract method when home closings occur.

Habitat is also funded through various grants and through both cost reimbursement and performance-based contracts. For grants and cost reimbursement contracts, revenue is recognized as costs are incurred under the contract. For performance-based contracts, revenue is recognized as performance units of service are provided.

Habitat accounts for grants and contracts as exchange transactions. Revenue is recognized as an increase in the statement of activities as stipulated performance is executed, or as expenditures are incurred in accordance with applicable agreements under expenditure reimbursement contracts. A receivable is recorded to the extent contract revenue exceeds payment received. Advances in excess of costs incurred are deferred and recognized as revenue when the related expense is incurred.

Support arising from donated, or in-kind, goods, property, and services is recognized in the financial statements at its fair value. GAAP requires recognition of in-kind services, if such services (1) create or enhance nonfinancial assets or (2) require specialized skills and are provided by individuals possessing those skills, who would typically charge a fee. For the year ended June 30, 2014, there was approximately \$89,000 and \$229,000 recorded in the accompanying financial statements for in-kind goods and services, respectively. Habitat utilizes the services of outside volunteers to perform a variety of tasks that assist the Organization. The fair value of these services is not recognized in the accompanying financial statements since they do not meet the criteria for recognition under GAAP.

Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Cash and Cash Equivalents

Habitat considers all highly liquid instruments with maturities of three months or less when purchased to be cash equivalents.

Assets Held in Escrow

Habitat currently services the mortgage notes on the homes it sells. Included in assets held in escrow are cash amounts received for insurance and property taxes on such homes. These cash amounts are recorded as an asset, which is offset by a related liability.

Mortgage Notes Receivable

Sales of homes are recorded at the gross amount of payments to be received over the lives of the mortgages. These payments do not include interest. The notes have been discounted at various interest rates using the effective interest method over the lives of the mortgages. Mortgages are reported net of amortized cost. No allowance for doubtful accounts is considered necessary as past experience and management's estimation indicates an adequate allowance for such accounts is immaterial (see Note 4).

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Mortgages in Process of Foreclosure

Habitat initiates foreclosure proceedings on mortgages that are greater than six months past due. These mortgages are carried at the lower of the amounts receivable from the borrower or the fair value of the property being foreclosed upon. Included in the receivable are the remaining balance of the mortgage, all insurance and taxes on the property that have been prepaid by the Organization, and any additional expenses incurred by Habitat that are directly related to the defaulted mortgage. When the foreclosure process is complete, Habitat will transfer the asset to inventory at its carrying value.

Inventory

ReStore inventory, which consists of merchandise donated by building supply stores and by individuals in the community, is stated at lower of cost or market value. With few exceptions, the donated items are used, resulting in an undeterminable market value. For these items, inventory is not recorded. The sale of these items, referred to as ReStore sales on the statement of activities, is recorded at point of sale.

Habitat's inventory also includes construction inventory and land held for construction which is recorded at the lower of cost or market value.

Property and Equipment

Property and equipment are recorded at cost or, if donated, the estimated fair value at the date of donation. Habitat has a policy of capitalizing expenditures for property and equipment with costs greater than \$500. Depreciation is provided using the straight-line method over the estimated useful lives of assets which range from three to 10 years. If donors stipulate how long the assets must be used or restrict the use of such assets for a specific purpose, the contributions are recorded as restricted support. In the absence of such stipulations, gifts of property are recorded as unrestricted support.

Net Assets

Habitat's net assets for the year ended June 30, 2014 are classified into two categories: (1) unrestricted net assets, which include no donor-imposed restrictions and (2) temporarily restricted net assets, which include donor-imposed restrictions that will expire in the future.

The unrestricted net assets consist of operating funds available for any purpose authorized by the Board of Directors (the "Board").

Temporarily restricted net assets consist of funds arising from gifts in which the donor has stipulated, as a condition of the gift, restrictions on how or when the gift may be spent. At June 30, 2014, Habitat had \$25,000 of temporarily restricted net assets.

Gifts and Contributions

Gifts and contributions are recorded at their fair market value on the date of receipt. Gifts received that are designated for future periods or restricted by the donor for specific purposes are reported as temporarily restricted or permanently restricted support that increases those net asset categories. All contributions are considered to be available for unrestricted use unless specifically restricted by the donor.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Concentration of Credit Risk

Financial instruments that potentially subject Habitat to concentrations of credit risk consist primarily of bank deposits and mortgages receivable.

Habitat maintains bank accounts with balances which, at times, may exceed federally insured limits. Habitat has not experienced any losses on such accounts, and believes it is not exposed to any significant risk on bank deposit accounts.

Habitat has the ability to foreclose on delinquent mortgages, reducing the risk of loss to the Organization.

Functional Expenses

Certain direct, indirect, and administrative expenses are incurred which benefit more than one program. The Organization, therefore, allocates these expenses accordingly using time charged to employees and other various methods.

Federal Income Tax

Habitat is exempt from federal and state income taxes under Section 501(c)(3) and, accordingly, no provision for income taxes has been made in the accompanying financial statements. Management has evaluated Habitat's tax position and concluded that no uncertain tax positions have been taken that would require adjustment to the financial statements to comply with the provisions of the Income Tax Topic of the FASB ASC. With few exceptions, Habitat is subject to income tax examinations by the U.S. federal or state tax authorities up to three years after tax returns are filed.

Subsequent Events

In accordance with ASC 855, *Subsequent Events*, Habitat evaluated subsequent events through November 14, 2014; the date the financial statements were available for issue.

NOTE 3 MORTGAGES RECEIVABLE

During the year ended June 30, 2014, Habitat sold 15 properties. Nine of the properties were homes sold to qualified buyers at a zero-interest mortgage and are being financed by Habitat. The remaining six properties were either homes or land and were sold for cash. Each mortgage is issued as a zero-interest mortgage to the qualified buyer. The resulting mortgages are non-interest bearing and the presentation of the book value has been discounted based upon the prevailing market rates at the inception of the mortgages.

Mortgages receivable as of June 30, 2014 are as follows:

Mortgage notes receivable at face value	\$ 1,717,990
Less unamortized discounts on mortgage notes	<u>711,070</u>
Mortgage notes receivable, net of discounts	<u>\$ 1,006,920</u>

Habitat holds 24 mortgages receivable with maturity dates ranging from two to 30 years. The notes are non-interest bearing mortgages, payable in equal monthly installments,

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

and are secured by deeds of trust on the properties. The payments collected on these mortgages are used to help fund future home construction, pursuant to an agreement with Habitat for Humanity International. The notes have been discounted at various interest rates using the effective interest method over the lives of the mortgages. Habitat incurred a non-cash expense in the current year of approximately \$379,000 related to the recorded discount on mortgages issued. As mortgage payments are made, Habitat recognizes the amortization of the discount as revenue.

Principal payments on the mortgages receivable balance are expected to be received as follows:

<u>Year ending June 30,</u>		
2015	\$	26,005
2016		27,168
2017		26,555
2018		27,737
2019		26,818
Thereafter		<u>872,637</u>
Total	\$	<u>1,006,920</u>

For seriously delinquent mortgages, management elected to initiate foreclosure proceedings. As of June 30, 2014, 10 of these mortgages were identified and reclassified as mortgages in process of foreclosure. These mortgages have a fair value of approximately \$178,000.

Habitat continues to service the sold mortgages receivable by collecting payments from homeowners on behalf of the purchasing financial institutions. Homeowner payments are remitted by Habitat to the purchasing financial institutions in arrears. Accordingly, Habitat has reported an agency payable liability in the amount of approximately \$81,000 as of June 30, 2014. This reflects the homeowner payments held by Habitat that must be subsequently remitted to the purchasing financial institutions.

NOTE 4 INVENTORY

Inventory consists of the following as of June 30, 2014:

Land held for development	\$	168,017
Supplies and materials		36,277
ReStore inventory		6,893
Other		<u>378</u>
Total inventory	\$	<u>211,565</u>

Due to the changing conditions in the real estate market, management conducted a review of its land held for development. Management has concluded that the fair value of this land approximates its cost.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment consists of the following at June 30, 2014:

Building	\$	457,392
Land		350,000
Automobile		22,800
Equipment		13,638
Office equipment		10,165
		853,995
Less accumulated depreciation		(197,515)
		\$ 656,480

Depreciation expense for the year ended June 30, 2014 was approximately \$17,000.

NOTE 6 NOTE PAYABLE – RELATED PARTY

During 2011, Habitat entered into a promissory note agreement with HFHI under which it could borrow up to \$22,500. This promissory note agreement was entered into as part of the Self-Help Homeownership Opportunity Program (“SHOP”) affiliate sub-grant agreement, more fully discussed in Note 14. As of June 30, 2014, Habitat borrowed approximately \$17,000. This promissory note is non-interest bearing and calls for principal payments to commence in January 2014, with the total principal to be paid in full before January 1, 2018.

Future principal maturities on note payable – related party are as follows:

Year ending June 30,	Amount
2015	\$ 5,616
2016	5,616
2017	5,616
2018	383
Total	\$ 17,231

NOTE 7 LONG-TERM DEBT

Long-term debt consists of the following as of June 30, 2014:

Note payable, collateralized by a mortgage, payable in monthly installments of \$2,126, including interest at 4.6% per annum, beginning November 2013 through October 2018.		\$ 225,287
Less current portion		15,488
Long-term debt		\$ 209,799

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

Future principal maturities on long-term debt are as follows:

<u>Year ending June 30,</u>	<u>Amount</u>
2015	\$ 15,488
2016	16,216
2017	16,978
2018	17,775
2019	<u>158,830</u>
Total	<u>\$ 225,287</u>

NOTE 8 LINE OF CREDIT

Habitat has a line of credit with a lending institution. The line is in the amount of \$50,000 with no maturity date. As of June 30, 2014, there were no amounts outstanding on the line of credit.

NOTE 9 CONTINGENCY

Habitat is subject to federal audits to determine compliance with grant funding requirements. In the event that expenditures are disallowed, repayment could be required. Government grants require the fulfillment of certain conditions as set forth by applicable laws, rules and regulations and in the grant agreements. Failure to fulfill the conditions could result in the return of the funds to the grantor.

In addition, during the normal course of business, the Organization may be exposed to potential liabilities related to its homebuilding and community development activities. Management is unaware of any matters requiring accrual of related losses in the financial statements. This assessment, however, may change and matters of which management is unaware may exist.

NOTE 10 COMMITMENTS

In an effort to further Habitat's mission, the Organization entered into several contractual agreements, generally cancelable with 7 to 30 days written notice, with outside vendors and service providers.

NOTE 11 FAIR VALUE MEASUREMENTS

In accordance with FASB ASC 820, *Fair Value Measurements and Disclosures*, Habitat assessed the guidelines for measuring fair value. These guidelines provide a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. FASB ASC 820 establishes three levels of fair value hierarchy that are described below:

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

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- Level 2 Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets and 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 and inputs that are derived principally from or corroborated by observable market data are also included. 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 mortgages in process of foreclosure are valued at the price for which management believes it will be able to sell these assets in an open market. Since many of these assets have been uninhabited for several years, they possess many unique characteristics that do not allow them to be compared to the value of comparable assets. These mortgages are therefore classified within Level 3 of the valuation hierarchy:

	Fair Value Measurements			
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mortgages in process				
of foreclosure	\$ -	\$ -	\$ 178,000	\$ 178,000

The table below presents the reconciliation for the year ended June 30, 2014 for Level 3 assets (i.e., mortgages in process of foreclosure) that are measured at fair value on a recurring basis:

Balance, beginning of year	\$ 364,762
Total loss from impairment	(174,573)
Additions from increases in escrow and legal costs	13,140
Transfers out	(25,329)
Balance, end of year	<u>\$ 178,000</u>

The amount of total losses for the year attributable to the change in unrealized losses relating to assets still held at the reporting date	<u>\$ (174,573)</u>
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NOTE 12 OPERATING LEASES

Habitat had multiple lease obligations during the year ended June 30, 2014, which expire on various future dates. These leases include delivery trucks and a copier used in the office. Lease expense for these operating leases for the year ended June 30, 2014 was approximately \$35,000.

**HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
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The following is a schedule by years of the future minimum lease payments:

Year ending June 30,	Amount
2015	\$ 12,864
2016	2,664
2017	2,664
2018	1,776
Total	<u>\$ 19,968</u>

NOTE 13 GRANTS AND PROGRAMS

Community Development Block Grant

During the 2008 fiscal year, Habitat received a grant in the form of an assumable loan of \$465,000 from Hillsborough County under the Community Development Block Grant (“CDBG”) Program. With the proceeds, Habitat purchased a tract of land on Radio Lane (“Providence Point”) on which it was supposed to construct 25 units for low income homebuyers as defined by the Department of Housing and Urban Development (“HUD”). The loan is non-interest bearing and provides that as units are sold, a portion of the loan balance gets assumed by the buyer. Any remaining outstanding balance on the loan in July 2014 becomes payable by Habitat. The loan is secured by the Providence Point land.

Subsequent to the purchase of Providence Point, Habitat encountered certain zoning and permitting matters that prevented the construction of 25 units as planned. Habitat received approval to construct 15 units on Providence Point. On September 15, 2010, Habitat entered into an agreement with Hillsborough County, Florida in which they will receive funds from the County in an amount not to exceed \$501,000 to fund the costs for site development and infrastructure associated with Radio Lane Subdivision, an affordable housing community under the CDBG of the HUD.

As of June 30, 2014, all of the requirements of the CDBG had been satisfied resulting in no liability to Habitat.

Self-Help Homeownership Opportunity Program

In 2011, through HFHI, Habitat was awarded up to \$90,000 to be used to pay eligible expenses with respect to land acquisition and infrastructure improvements, with 25% of the award due to HFHI. As of June 30, 2014, the total amount due to HFHI was approximately \$17,000, and is recorded as a note payable – related party on the statement of financial position.

HOME Investment Partnership Program Grant

Through the City of Tampa, Habitat entered into an agreement with HUD. Under this agreement (the “HOME Grant”), Habitat was reimbursed by the City of Tampa up to \$100,000 for allowable expenses incurred in the rehabilitation of single family homes. During the year ended June 30, 2014, Habitat was reimbursed for all \$100,000 of allowable expenses related to the HOME Grant. The reimbursements are included in grant funding on the statement of activities.

HABITAT FOR HUMANITY OF HILLSBOROUGH COUNTY FLORIDA, INC.
NOTES TO THE FINANCIAL STATEMENTS
JUNE 30, 2014

NOTE 14 SUBSEQUENT EVENTS

In a single transaction in October 2014, Habitat sold all of the properties which had been designated as mortgages in process of foreclosure on the statement of financial position. The properties were sold to an independent buyer for \$178,000.