***HABITAT FOR HUMANITY***
***OF PINELLAS COUNTY, INC. AND SUBSIDIARY***

***CONSOLIDATED FINANCIAL STATEMENTS***

***JUNE 30, 2014 AND 2013***

***AND***

***REPORTS OF INDEPENDENT***
***CERTIFIED PUBLIC ACCOUNTANTS***

pdr
CERTIFIED PUBLIC
accountants

CLEARWATER, FLORIDA

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# *INDEPENDENT AUDITORS' REPORT*

Board of Directors
Habitat for Humanity of Pinellas County, Inc. and Subsidiary

## *Report on the Consolidated Financial Statements*

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Pinellas County, Inc. and Subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2014 and 2013, and the related consolidated statements of activities and cash flows for the years then ended, the related consolidated statement of functional expenses for the year ended June 30, 2014, and the related notes to the consolidated financial statements.

## *Management's Responsibility for the Consolidated Financial Statements*

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

## *Auditors' Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

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

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

***CONTINUED***

## *INDEPENDENT AUDITORS' REPORT - CONTINUED*

### *Opinion*

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

### *Other Matters*

*Report on Summarized Comparative Information*

We have previously audited the Organization's 2013 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 14, 2013. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2013, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 consolidated financial statements as a whole.

### *Other Reporting Required by Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated October 9, 2014, on our consideration of Habitat for Humanity of Pinellas County, Inc.'s (Habitat) internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat's internal control over financial reporting and compliance.

PDR Certified Public Accountants

Clearwater, Florida
October 9, 2014

## *HABITAT FOR HUMANITY OF PINELLAS COUNTY, INC. AND SUBSIDIARY*

## *CONSOLIDATED STATEMENTS OF FINANCIAL POSITION*

## *JUNE 30, 2014 AND 2013*

### *ASSETS*

| | 2014 | 2013 |
|---|---|---|
| Cash and cash equivalents | $ 1,538,460 | $ 634,088 |
| Cash and cash equivalents - temporarily restricted | 731,448 | 269,667 |
| Assets held in escrow | 362,863 | 270,683 |
| Accounts receivable | 194,110 | 36,873 |
| Unconditional promises to give, net | 11,051 | 25,987 |
| Due from affiliate | - | 16,431 |
| Habitat ReStore inventory | 107,444 | 106,952 |
| Homes under construction | 1,599,572 | 1,639,034 |
| Homes awaiting closing | 371,480 | 349,537 |
| Land for future construction | 2,252,727 | 2,464,472 |
| Real estate held for investment or resale | 444,249 | 169,152 |
| Property and equipment, net | 268,669 | 271,029 |
| Non-interest bearing residential mortgage loans, net of unamortized discounts of $708,549 and $1,468,943, respectively | 1,630,997 | 1,154,426 |
| Beneficial interest in assets held by others | 20,000 | 20,000 |
| Investment in joint venture | 3,042,659 | 2,991,174 |
| Deferred affordable housing note receivable | 350,000 | 350,000 |
| Other assets and intangibles, net | 335,356 | 397,022 |
| ***Total Assets*** | $ 13,261,085 | $ 11,166,527 |

### *LIABILITIES AND NET ASSETS*

| | 2014 | 2013 |
|---|---|---|
| ***Liabilities*** | | |
| Accounts payable and accrued expenses | $ 316,250 | $ 325,939 |
| Deferred revenue - joint venture | 201,735 | 238,494 |
| Escrow deposits | 359,861 | 268,207 |
| Down payments and advance payments | 19,000 | 22,000 |
| Capital lease payable | 16,767 | 11,368 |
| Lines-of-credit and notes payable | 7,472,237 | 6,653,388 |
| Deferred affordable housing note payable | 350,000 | 350,000 |
| ***Total liabilities*** | 8,735,850 | 7,869,396 |
| ***Net Assets*** | | |
| Unrestricted | 3,255,425 | 2,324,418 |
| Temporarily restricted | 1,249,810 | 952,713 |
| Permanently restricted | 20,000 | 20,000 |
| ***Total net assets*** | 4,525,235 | 3,297,131 |
| ***Total Liabilities and Net Assets*** | $ 13,261,085 | $ 11,166,527 |

***See accompanying notes to consolidated financial statements***

*HABITAT FOR HUMANITY OF PINELLAS COUNTY, INC. AND SUBSIDIARY*

*CONSOLIDATED STATEMENT OF ACTIVITIES*

*YEAR ENDED JUNE 30, 2014*
*(WITH COMPARATIVE TOTALS FOR 2013)*

| | | Temporarily | Permanently | Total | |
|---|---|---|---|---|---|
| ***Support and Revenue*** | ***Unrestricted*** | ***Restricted*** | ***Restricted*** | ***2014*** | ***2013*** |
| Contributions | | | | | |
| Building materials and services | $ 429,019 | $ 77,490 | $ - | $ 506,509 | $ 465,949 |
| Donated lots | - | 831,009 | - | 831,009 | 1,136,542 |
| Cash | 659,554 | 329,165 | - | 988,719 | 764,388 |
| Habitat ReStore merchandise | 735,633 | - | - | 735,633 | 614,479 |
| In-kind | 31,762 | - | - | 31,762 | 8,464 |
| Transfers to homeowners | 4,663,734 | - | - | 4,663,734 | 4,076,250 |
| Mortgage discount amortization | 42,039 | - | - | 42,039 | 52,601 |
| Sales - Habitat ReStore | 728,598 | - | - | 728,598 | 601,868 |
| Fundraising events, net of direct costs of $106,546 | 110,628 | - | - | 110,628 | 48,222 |
| Foundations and grants | 792,087 | - | - | 792,087 | 456,708 |
| Other | 57,681 | - | - | 57,681 | 45,606 |
| Investment income | 81,073 | - | - | 81,073 | 52,634 |
| Net assets released from restrictions | 940,567 | (940,567) | - | - | - |
| ***Total support and revenue*** | 9,272,375 | 297,097 | - | 9,569,472 | 8,323,711 |
| ***Expenses*** | | | | | |
| Program | | | | | |
| Construction and mortgage discounts | 6,801,740 | - | - | 6,801,740 | 6,675,800 |
| Habitat ReStore | 1,379,242 | - | - | 1,379,242 | 1,120,130 |
| Supporting services | | | | | |
| General and administrative | 181,845 | - | - | 181,845 | 166,117 |
| Fundraising | 205,211 | - | - | 205,211 | 210,298 |
| ***Total expenses*** | 8,568,038 | - | - | 8,568,038 | 8,172,345 |
| ***Change in Net Assets Before Other Changes*** | 704,337 | 297,097 | - | 1,001,434 | 151,366 |
| ***Other Changes - Revenue (Expense)*** | | | | | |
| Interest expense | (30,127) | - | - | (30,127) | (27,883) |
| Loss on sale of property | (7,707) | - | - | (7,707) | (5,106) |
| Gain on sale of mortgages | 450,290 | - | - | 450,290 | - |
| Impairment on land and property | (222,544) | - | - | (222,544) | (54,448) |
| Income related to joint venture | 36,758 | - | - | 36,758 | 46,171 |
| Debt forgiveness income | - | - | - | - | 165,000 |
| ***Total other changes*** | 226,670 | - | - | 226,670 | 123,734 |
| ***Change in Net Assets*** | 931,007 | 297,097 | - | 1,228,104 | 275,100 |
| ***Net Assets at Beginning of Year*** | 2,324,418 | 952,713 | 20,000 | 3,297,131 | 3,022,031 |
| ***Net Assets at End of Year*** | $ 3,255,425 | $ 1,249,810 | $ 20,000 | $ 4,525,235 | $ 3,297,131 |

***See accompanying notes to consolidated financial statements***

## HABITAT FOR HUMANITY OF PINELLAS COUNTY, INC. AND SUBSIDIARY

## CONSOLIDATED STATEMENT OF ACTIVITIES - CONTINUED

## YEAR ENDED JUNE 30, 2013

| *Support and Revenue* | *Unrestricted* | *Temporarily Restricted* | *Permanently Restricted* | *Total* |
|---|---|---|---|---|
| Contributions | | | | |
| Building materials and services | $ - | $ 465,949 | $ - | $ 465,949 |
| Donated lots | - | 1,136,542 | - | 1,136,542 |
| Cash | 759,388 | 5,000 | - | 764,388 |
| Habitat ReStore merchandise | 614,479 | - | - | 614,479 |
| In-kind | 8,464 | - | - | 8,464 |
| Transfers to homeowners | 4,076,250 | - | - | 4,076,250 |
| Mortgage discount amortization | 52,601 | - | - | 52,601 |
| Sales - Habitat ReStore | 601,868 | - | - | 601,868 |
| Fundraising events, net of direct costs of $25,741 | 48,222 | - | - | 48,222 |
| Grants | 456,708 | - | - | 456,708 |
| Other | 45,606 | - | - | 45,606 |
| Investment income | 52,634 | - | - | 52,634 |
| Net assets released from restrictions | 775,571 | (775,571) | - | - |
| *Total support and revenue* | 7,491,791 | 831,920 | - | 8,323,711 |
| *Expenses* | | | | |
| Program | | | | |
| Construction and mortgage discounts | 6,675,800 | - | - | 6,675,800 |
| Habitat ReStore | 1,120,130 | - | - | 1,120,130 |
| Supporting services | | | | |
| General and administrative | 166,117 | - | - | 166,117 |
| Fundraising | 210,298 | - | - | 210,298 |
| *Total expenses* | 8,172,345 | - | - | 8,172,345 |
| *Change in Net Assets Before Other Changes* | (680,554) | 831,920 | - | 151,366 |
| *Other Changes - (Expense) Revenue* | | | | |
| Interest expense | (27,883) | - | - | (27,883) |
| Loss on sale of property | (5,106) | - | - | (5,106) |
| Impairment on land held for development | (54,448) | - | - | (54,448) |
| Income related to joint venture | 46,171 | - | - | 46,171 |
| Debt forgiveness income | 165,000 | - | - | 165,000 |
| *Total other changes* | 123,734 | - | - | 123,734 |
| *Change in Net Assets* | (556,820) | 831,920 | - | 275,100 |
| *Net Assets at Beginning of Year* | 2,881,238 | 120,793 | 20,000 | 3,022,031 |
| *Net Assets at End of Year* | $ 2,324,418 | $ 952,713 | $ 20,000 | $ 3,297,131 |

*See accompanying notes to consolidated financial statements*

*HABITAT FOR HUMANITY OF PINELLAS COUNTY, INC. AND SUBSIDIARY*

*CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES*

*YEAR ENDED JUNE 30, 2014*
*(WITH COMPARATIVE TOTALS FOR 2013)*

| | Program Services | | | | Supporting Services | | | Total Expenses | |
|---|---|---|---|---|---|---|---|---|---|
| | Construction | Mortgage Discounts | Habitat ReStore | Total Program Services | General and Administrative | Fundraising | Total Supporting Services | 2014 | 2013 |
| Salaries | $ 788,788 | $ - | $ 334,843 | $ 1,123,631 | $ 68,801 | $ 140,010 | $ 208,811 | $ 1,332,442 | $ 1,162,566 |
| Employee benefits | 81,185 | - | 53,095 | 134,280 | 11,124 | 9,413 | 20,537 | 154,817 | 134,425 |
| Retirement plan | 7,515 | - | 4,275 | 11,790 | 1,806 | 910 | 2,716 | 14,506 | 17,556 |
| Building materials and supplies | 5,156,572 | - | - | 5,156,572 | - | - | - | 5,156,572 | 4,482,169 |
| Insurance and taxes | 45,647 | - | 20,403 | 66,050 | 1,112 | - | 1,112 | 67,162 | 69,639 |
| Repairs and maintenance | 8,409 | - | - | 8,409 | - | - | - | 8,409 | 7,943 |
| Depreciation and amortization | 91,425 | - | 5,340 | 96,765 | 19,680 | - | 19,680 | 116,445 | 106,202 |
| Mortgage discounts | - | 134,139 | - | 134,139 | - | - | - | 134,139 | 866,032 |
| Office supplies, equipment, and utilities | 94,323 | - | 25,356 | 119,679 | 4,002 | 8,700 | 12,702 | 132,381 | 127,296 |
| Printing and advertising | 31,470 | - | 44,746 | 76,216 | - | 13,077 | 13,077 | 89,293 | 49,388 |
| Travel | 37,256 | - | 25,888 | 63,144 | - | 3,559 | 3,559 | 66,703 | 68,961 |
| Professional services | 63,595 | - | 1,005 | 64,600 | 54,158 | 1,480 | 55,638 | 120,238 | 85,963 |
| Other | 72,606 | - | 755,861 | 828,467 | 12,162 | 19,062 | 31,224 | 859,691 | 698,564 |
| Rent | 63,203 | - | 108,430 | 171,633 | 9,000 | 9,000 | 18,000 | 189,633 | 184,141 |
| Bad debt expense | 12,207 | - | - | 12,207 | - | - | - | 12,207 | 6,500 |
| Support of Habitat for Humanity International | 113,400 | - | - | 113,400 | - | - | - | 113,400 | 105,000 |
| | $ 6,667,601 | $ 134,139 | $ 1,379,242 | $ 8,180,982 | $ 181,845 | $ 205,211 | $ 387,056 | $ 8,568,038 | $ 8,172,345 |

***See accompanying notes to consolidated financial statements***

*HABITAT FOR HUMANITY OF PINELLAS COUNTY, INC. AND SUBSIDIARY*

*CONSOLIDATED STATEMENTS OF CASH FLOWS*

*YEARS ENDED JUNE 30, 2014 AND 2013*

| | 2014 | 2013 |
|---|---|---|
| ***Cash Flows from Operating Activities*** | | |
| Change in net assets | $ 1,228,104 | $ 275,100 |
| ***Adjustments to reconcile change in net assets to cash provided by (used in) operating activities*** | | |
| Depreciation | 52,580 | 47,692 |
| Amortization of intangibles | 63,865 | 58,510 |
| Investment income | (81,073) | (52,634) |
| Amortization of mortgage discounts | (42,039) | (52,871) |
| Loss on mortgages sold | 402,204 | - |
| Mortgage discount retired | (852,494) | - |
| New mortgages transferred to owners | (102,216) | (581,198) |
| Loss on sale of property | 7,707 | 5,106 |
| Donated land for development | (831,009) | (1,136,542) |
| Debt forgiveness income | - | (165,000) |
| Impairment on land and property | 222,544 | 54,448 |
| ***Decrease (Increase) in:*** | | |
| Escrow cash | (92,180) | 136,142 |
| Accounts receivable | (157,237) | 236,790 |
| Unconditional promises to give | 14,936 | 7,468 |
| Due from affiliate | 16,431 | 22,189 |
| Habitat ReStore inventory | (492) | (12,611) |
| Homes under construction | 1,332,361 | 830,102 |
| Due from financial institutions | (985,491) | 7,198 |
| Second mortgage receivable | 780 | (38,380) |
| Other assets | (2,199) | (50,496) |
| ***Increase (Decrease) in:*** | | |
| Accounts payable and accrued expenses | (9,689) | 181,365 |
| Deferred revenue in joint venture | (36,758) | 141,805 |
| Escrow deposits | 91,654 | (148,353) |
| Down payments and advance payments | (3,000) | 6,500 |
| ***Net cash provided by (used in) operating activities*** | 237,289 | (227,670) |

***See accompanying notes to consolidated financial statements***

## *HABITAT FOR HUMANITY OF PINELLAS COUNTY, INC. AND SUBSIDIARY*

## *CONSOLIDATED STATEMENTS OF CASH FLOWS - CONTINUED*

## *YEARS ENDED JUNE 30, 2014 AND 2013*

| | 2014 | 2013 |
|---|---|---|
| ***Cash Flows from Investing Activities*** | | |
| Proceeds from sale of real estate held for resale | - | 310,419 |
| Purchases of real estate held for resale | (300,138) | (16,621) |
| Proceeds from sale of property and equipment | 14,338 | - |
| Purchases of equipment | (50,999) | (39,949) |
| Net change in sale of land and homes awaiting closing | (21,943) | (202,356) |
| Net purchases of land for future construction | (468,915) | (147,877) |
| Distributions from new market tax credit | 29,588 | - |
| Payments received on mortgages sold to banks | 1,020,949 | - |
| Payments received on mortgages | 81,736 | 83,327 |
| ***Net cash provided by (used in) investing activities*** | 304,616 | (13,057) |
| ***Cash Flows from Financing Activities*** | | |
| Payments on notes payable | (426,119) | (666,806) |
| Proceeds to purchase land for future construction | 205,000 | - |
| Net change in capital lease obligations | 5,399 | (3,381) |
| Payments on lines-of-credit | (442,598) | (628,424) |
| Proceeds from notes payable | 1,087,064 | 37,574 |
| Net proceeds from New Market Tax Credit | - | 284,231 |
| Proceeds from lines-of-credit | 395,502 | 933,587 |
| ***Net cash provided by (used in) financing activities*** | 824,248 | (43,219) |
| ***Net Increase (Decrease) in Cash*** | 1,366,153 | (283,946) |
| ***Cash and Cash Equivalents at Beginning of Year*** | 903,755 | 1,187,701 |
| ***Cash and Cash Equivalents at End of Year*** | $ 2,269,908 | $ 903,755 |
| ***SUPPLEMENTAL DISCLOSURES OF NONCASH ACTIVITIES:*** | | |
| ***Transfers of Property to Homeowners*** | $ 3,257,470 | $ 2,378,700 |
| ***New Market Tax Credit*** | | |
| Debt acquired | $ - | $ 1,880,000 |
| Other start-up costs and investments | - | (137,844) |
| Investment in joint venture | - | (1,457,925) |
| ***Net proceeds from New Market Tax Credit*** | $ - | $ 284,231 |

***See accompanying notes to consolidated financial statements***

## *NOTE A - NATURE OF ORGANIZATION*

Habitat for Humanity of Pinellas County, Inc. (Habitat) was incorporated in January 1985. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian, not-for-profit organization, whose mission is to build and repair simple, decent, affordable houses with those who lack adequate shelter. 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.

Pinellas Funding Company I, LLC (Pinellas Funding) was incorporated in July 2013 and is solely owned by Habitat. Pinellas Funding was formed during the current year to complete the sale of mortgages with PNC Bank (see ***NOTE T***). Pinellas Funding purchases mortgages from Habitat and subsequently sells these the mortgages to PNC Bank.

## *NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*

1. ***Basis of Consolidation and Presentation***

The consolidated financial statements include the accounts of Habitat and Pinellas Funding (the Organization). The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (US GAAP). All material intercompany transactions and balances have been eliminated in consolidation.

The Organization presents information regarding its consolidated financial position and activities according to three classes of net assets described as follows:

- Unrestricted Net Assets - All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the Board's discretion.
- Temporarily Restricted Net Assets - Resources accumulated through donations or grants for specific operating or capital purpose. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.
- Permanently Restricted Net Assets - Resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. These net assets include the original value of the gift, plus any subsequent additions.

*NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED*

2. ***Use of Estimates***

The preparation of consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported revenues and expenses. Accordingly, actual results could differ from those estimates. Significant estimates included in the consolidated financial statements include allocation of expenses by function, useful lives of depreciable assets, the allowance on unconditional promises to give, impairment of land held for development, and discount on non-interest bearing mortgage loans.

3. ***Fair Value Measurement***

The consolidated financial statements are prepared in accordance with an accounting standard, for all financial assets and liabilities and for nonfinancial assets and liabilities recognized or disclosed at fair value in the financial statements or on a recurring basis (at least annually). Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on a measurement date. The standard also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. There are three levels of inputs that may be used to measure fair value:

Level 1: Quoted market prices in active markets for identical assets or liabilities.
Level 2: Observable market based inputs or unobservable inputs that are corroborated by market data.
Level 3: Unobservable inputs that are not corroborated by market data.

4. ***Fair Value of Financial Instruments***

At June 30, 2014, the following methods, assumptions, and accounting principles are used to estimate fair value of each of the following classes of financial instruments for which it is practical to estimate value:

*Cash and cash equivalents* - the carrying amount reported in the consolidated statements of financial position approximates fair value because of the short maturity of those instruments.

*Unconditional promises to give* - the fair value is determined as the present value of the amount pledged based on the interest rates applicable in the year the promises were received.

***NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***

4. ***Fair Value of Financial Instruments - Continued***

*Mortgage receivables* - the fair value is determined at the present value of the loan.

*Investment in joint venture* - the carrying amount reported in the consolidated statements of financial position approximates fair value because of the short maturity of those instruments held by the joint venture.

*Accounts payable and accrued expenses* - the carrying amount reported in the consolidated statements of financial position approximates fair value because of the short maturity of those instruments.

*Lines-of-credit, capital lease payable, and notes payable* - the carrying amount reported in the consolidated statements of financial position approximates fair value because the Organization can obtain similar loans of comparable maturities and rates by the Organization's financial institution.

5. ***Cash and Cash Equivalents***

Cash and cash equivalents consist of cash on deposit with financial institutions and money market mutual fund accounts. The Organization considers all highly liquid assets with an initial maturity of three months or less as cash. Restricted cash consists of funds temporarily restricted by donors for specific use.

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist principally of cash held in financial institutions in excess of federally-insured limits. From time to time throughout the years ending June 30, 2014 and 2013, the Organization's cash balance may have exceeded the federally insured limit. However, the Organization has not experienced and does not expect to incur any losses in such accounts.

6. ***Assets Held in Escrow***

The Organization currently services the mortgages 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 offset by a related liability.

*NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED*

7. ***Accounts Receivable***

Accounts receivable consist mainly of mortgages receivable that are pending funding in order to transfer the loans purchased by a financial institution. Loans closed but not yet transferred at the end of the year are recorded in the consolidated statements of financial position as accounts receivable.

8. ***Unconditional Promises to Give***

Contributions are recognized when the donor makes a promise to give to the Organization that is, in substance, unconditional. Unconditional contributions that are restricted by the donor are reported as increases in unrestricted net assets, if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, or when a pledge becomes due, temporarily restricted net assets are reclassified to unrestricted net assets.

Unconditional promises to give that are expected to be collected within one year are recorded as contributions receivable at net realizable value. Unconditional promises to give that are expected to be collected in future years are recorded at the present value of their estimated cash flows. Conditional promises to give are not included as support until the conditions are substantially met.

The Organization uses the allowance method to determine uncollectible unconditional promises. The allowance is based on prior years' experience and management's analysis of specific promises made.

9. ***Habitat ReStore Inventory***

Habitat ReStore inventory includes donated household building materials, appliances, and furniture that are sold at the Habitat ReStore in Clearwater, Florida. Merchandise is recorded at its estimated fair market value, which is determined based on its future economic benefit.

10. ***Homes Under Construction***

Homes under construction consist of labor, material, and lot costs using the specific identification method. It also includes indirect construction costs incurred during the construction period. Habitat transferred 27 homes to homeowners in 2014 and 26 homes in 2013. Homes under construction that are completed during the year but not transferred to a homeowner at year-end are moved to homes awaiting closing.

***NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***

11. ***Land for Future Construction***

Land for future construction includes the cost of land and improvements to land or, if donated, the approximate fair value of the land at the date of the donation, held for future construction of homes.

12. ***Property and Equipment***

Property and equipment are recorded at acquisition cost, including costs necessary to prepare the asset for its intended use. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the assets ranging from 3 - 10 years.

Maintenance and repairs are charged to expense as incurred, while renewals and betterments in excess of $500 are capitalized.

13. ***Impairment on Long-Lived Assets***

The Organization's long-lived assets, such as land, building, and equipment, are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to estimated undiscounted future cash flows expected to be generated by the asset. If the carrying amount of an asset exceeds its estimated future cash flows, an impairment charge is recognized for the amount by which the carrying amount exceeds the fair value of the asset.

Assets to be disposed of would be separately presented in the consolidated statements of financial position and reported at the lower of the carrying amount or fair value less costs to sell, and are no longer depreciated. The assets and liabilities of a disposal group classified as held for sale would be presented separately in the appropriate asset and liability sections of the consolidated statements of financial position. The Organization recognized an impairment loss on land held for development and property held for investment during the years ended June 30, 2014 and 2013 (see ***NOTE N***).

14. ***Non-Interest Bearing Residential Mortgage Loans***

Pursuant to the sale and servicing agreement with various financial institutions, the Organization must service the loans for the remainder of the mortgage term. Mortgage loans consist of non-interest bearing mortgages secured by real estate and payable in monthly installments over the life of the mortgage. Past due and delinquent mortgage loans are assessed at the discretion of the Board of Directors.

***NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED***

15. ***Beneficial Interest in Assets Held by Others***

The beneficial interest in trust is recorded at fair value in the consolidated statements of financial position. The change in the fair value of the beneficial interest is adjusted at year end and recorded in the permanently restricted asset class in the consolidated statements of activities.

16. ***Other Assets***

Other assets consist mainly of other receivables, refundable deposits, and intangible assets. In accordance with US GAAP, if an intangible asset is determined to have an indefinite useful life, it shall not be amortized until its useful life is determined to be no longer indefinite. Substantially all of the intangible assets are costs associated with the investment in joint venture to take advantage of the New Market Tax Credit (see ***NOTE I***), and are being amortized over the estimated life of this joint venture on a straight-line basis. Website and software costs are being amortized over three years.

17. ***Revenue Recognition***

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and or nature of any donor restrictions.

The Organization recognizes revenue from home sales when a closing occurs. A closing is considered to occur when title, possession, and other attributes of ownership have been transferred to the buyer; and the Organization is not obligated to perform significant activities after the sale.

Federal, state and local government, and other grants are recognized as support when performance occurs pursuant to the contract agreement.

*NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED*

18. ***Donated Services***

Donated services and materials are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence or nature of any donor restrictions. These are reflected in the accompanying consolidate statements of activities, at their estimated fair market values at the date of receipt. Contributions of services are recorded if the services received create or enhance non-financial assets or require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. During the years ended June 30, 2014 and 2013, Habitat recorded donation revenue of approximately $507,000 and $466,000 related to donations of building materials and services. During the years ended June 30, 2014 and 2013, Habitat received approximately $831,000 and $1,137,000 in donated lots from various financial institutions and donors recorded at their tax assessed just market value which approximates fair value.

19. ***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, as provided by Habitat International. Utilizing the effective interest method, this discount will be recognized as mortgage discount amortization income over the term of the mortgage.

20. ***Advertising Costs***

Advertising costs are expensed as incurred and were approximately $89,000 and $49,000 for the years ended June 30, 2014 and 2013, respectively.

21. ***Income Tax Status***

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International. Accordingly, no provision for income taxes has been recorded.

*NOTE B - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED*

22. ***Uncertain Tax Positions***

The Organization accounts for the effect of any uncertain tax positions based on a "more likely than not" threshold to the recognition of the tax positions being sustained based on the technical merits of the position under scrutiny by the applicable taxing authority. If a tax position or positions are deemed to result in uncertainties of those positions, the unrecognized tax benefit is estimated based on a "cumulative probability assessment" that aggregates the estimated tax liability for all uncertain tax positions. The Organization has identified its tax status as a tax-exempt entity as its only significant tax position; however, the Organization has determined that such tax position does not result in an uncertainty requiring recognition. The Organization is not currently under examination by any taxing jurisdiction. The Organization's federal returns are generally open for examination for three years following the date filed.

23. ***Functional Expense Allocation***

The costs of providing the programs and supporting services have been reported on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefitted.

Program and supporting expenses, when specifically identifiable, are classified to the function which incurred the expense. Certain expenses are allocated to each function based on management's estimate of time spent within each category.

24. ***Comparative Financial Information***

The accompanying consolidated financial statements include certain prior year summarized comparative total amounts. Such information does not include sufficient detail to constitute a presentation in conformity with US GAAP. Accordingly, such information should be read in conjunction with the Organization's consolidated financial statements for the year ended June 30, 2013, from which the summarized information was derived.

### *NOTE C - UNCONDITIONAL PROMISES TO GIVE*

Unconditional promises to give consist of the following at June 30:

| | 2014 | 2013 |
|---|---|---|
| Gross unconditional promises to give | $ 24,157 | $ 27,200 |
| Less: Allowance for uncollectible promises | (12,207) | - |
| Less: Unamortized discount | (899) | (1,213) |
| | $ 11,051 | $ 25,987 |
| Amounts due in: | | |
| Less than one year | $ 5,979 | $ 16,287 |
| One to five years | 5,072 | 9,700 |
| | $ 11,051 | $ 25,987 |

Promises to give with due dates extending beyond one year are discounted to present value using Treasury bill rates with similar term investments with an added amount for economic uncertainty. The applicable discount rate at June 30, 2014, was approximately 3%. For the years prior to 2014, promises to give were discounted with rates ranging from 1% - 5%.

At June 30, 2014 and 2013, approximately $-0- and $6,500 respectively, was deemed uncollectible and written off to bad debt expense.

### *NOTE D - PROPERTY AND EQUIPMENT*

Property and equipment consists of the following:

| | 2014 | 2013 |
|---|---|---|
| Vehicles | $ 109,259 | $ 83,324 |
| Furniture and fixtures | 45,563 | 41,673 |
| Leasehold improvements | 210,185 | 210,185 |
| Signage | 11,717 | 11,717 |
| Construction equipment | 56,288 | 54,629 |
| Office equipment | 88,067 | 72,031 |
| | 521,079 | 473,559 |
| Less accumulated depreciation | (252,410) | (202,530) |
| | $ 268,669 | $ 271,029 |

### *NOTE E - NON-INTEREST BEARING RESIDENTIAL MORTGAGE LOANS*

Non-residential mortgage loans consist of the following:

| | 2014 | 2013 |
|---|---|---|
| Non-interest bearing loans at par value | $ 2,339,546 | $ 2,623,369 |
| Less: Unamortized discount based on imputed interest | (708,549) | (1,468,943) |
| | $ 1,630,997 | $ 1,154,426 |

The initial amount of each mortgage loan approximates the Organization's cost to build the house, plus mortgage discount expense. The residential mortgage loans have been discounted to reflect their economic value. The interest rates used to determine the discount range from 7.0% - 10.0% and are based on prevailing market rates, as provided by Habitat International, in the year the mortgage originated. The discount rate used during the years ended June 30, 2014 and 2013 was 7.6% and 7.4%, respectively. The discount is calculated by computing the present value of each of the non-interest bearing notes using the applicable discount rate.

### *NOTE F - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS*

In 2006, the Organization established accounts with the Pinellas Community Foundation (PCF) in the amount of $10,000 and Community Foundation of Tampa Bay (CFTB) in the amount of $10,000. This total amount of $20,000 is considered an asset (beneficial interest in assets held by others) of the Organization and is included in the accompanying consolidated statements of financial position as of June 30, 2014 and 2013 as both an asset and a permanently restricted net asset. Although the Organization does not have the right to receive the assets per the Trust Agreements, the contribution to these funds is considered an asset of the Organization as it has been named beneficiary. Earnings on the funds, net of any service fees, will be periodically distributed to the Organization in accordance with the agreement. The Organization has received approximately $1,000 in earnings on these accounts for the years ending June 30, 2014 and 2013. The trust assets are composed of cash and cash equivalents, fixed income, equity securities, and real and tangible asset funds. The portfolio is managed by an investment company.

### *NOTE G - FAIR VALUE MEASUREMENT*

The Organization's investments are reported at fair value in the accompanying statements of financial position. During the year ended June 30, 2014, the Organization transferred its beneficial interest in perpetual trust to Level 3 based on additional analysis performed by management. The analysis determined that these items should be reported at Level 3 because the fair values for these assets have unobservable inputs.

Following is a description of valuation methodologies used for investments measured at fair value.

*Beneficial interest in a perpetual trust* - the investments are managed by a third party which is unrelated to this Organization. The trust assets are valued based upon the third party information without adjustment. The Organization does not develop nor are they provided with the quantitative inputs used to develop the fair market values.

| | *Fair Value Measurements at Reporting Date Using* | | | |
|---|---|---|---|---|
| ***Description:*** | *Quoted Prices In Active Markets for Identical Assets Level 1* | *Significant Other Observable Inputs Level 2* | *Significant Other Unobservable Inputs Level 3* | *Total Fair Value* |
| Beneficial interest in perpetual trust | $ - | $ - | $ 20,000 | $ 20,000 |
| Total assets at fair value | $ - | $ - | $ 20,000 | $ 20,000 |

Fair value of assets measured on a recurring basis at June 30, 2013 is as follows:

| | *Fair Value Measurements at Reporting Date Using* | | | |
|---|---|---|---|---|
| ***Description:*** | *Quoted Prices In Active Markets for Identical Assets Level 1* | *Significant Other Observable Inputs Level 2* | *Significant Other Unobservable Inputs Level 3* | *Total Fair Value* |
| Beneficial interest in perpetual trust | $ - | $ | $ 20,000 | $ 20,000 |
| Total assets at fair value | $ - | $ | $ 20,000 | $ 20,000 |

### *NOTE H - INTANGIBLE ASSETS*

Intangible assets subject to amortization at June 30, 2014 and 2013 are as follows:

| | 2014 | 2013 |
|---|---|---|
| Website/Software Costs | $ 21,958 | $ 21,958 |
| Costs associated with HFHI-SA Leverage IX, LLC (see ***NOTE I***) | 214,860 | 214,860 |
| Costs associated with CCM (see ***NOTE I***) | 231,908 | 231,908 |
| | 468,726 | 468,726 |
| Less accumulated amortization | (152,836) | (88,971) |
| | $ 315,890 | $ 379,755 |

Annual amortization expense is estimated as follows:

| ***Years ended June 30,*** | |
|---|---|
| 2015 | $ 63,490 |
| 2016 | 59,772 |
| 2017 | 58,276 |
| 2018 | 58,276 |
| 2019 | 34,595 |
| Thereafter | 41,481 |
| | $ 315,890 |

### *NOTE I - INVESTMENT IN JOINT VENTURE*

The Organization invested, along with four other Habitat affiliates, in a joint venture (HFHI-SA Leverage IX, LLC) with 17.26% ownership to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. As a result, the Organization has invested approximately $1,530,000 and was able to secure a 15-year loan in the amount of $2,023,656 payable to a community development entity. 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 one through seven at a reduced rate of .755%. Beginning in year eight through year fifteen, the principal balance of the loan is reduced by an eight-year amortization at the same rate of .755% (see ***NOTE K***).

### *NOTE I - INVESTMENT IN JOINT VENTURE - CONTINUED*

In August 2012, the Organization invested, along with other Habitat affiliates, in a joint venture to take advantage of NMTC financing. As a result, the Organization has invested $100,000 of cash plus a leverage amount of construction in process value of $1,330,132. With this initial investment, the Organization was able to secure a 16-year loan in the amount of $1,880,000 payable to CCM Community Development XXVII (CCM), an affiliate of the joint venture. The entire loan amount must be spent within the 12 months of the closing of the NMTC transaction. The debt requires interest only payments until November 10, 2020 at 0.7608%. The Organization makes semi-annual interest only payments to CCM. The loan is secured by substantially all the assets acquired by the affiliate from the project loan proceeds (see ***NOTE K***).

Investments in joint ventures are accounted for under the equity method, with the Organization's share of the operating results of the joint venture reflected in interest income and investment income. During 2014 and 2013, purchases of joint ventures were approximately $-0- and $1,430,000, respectively. During the years ended June 30, 2014 and 2013, investment income from joint ventures was approximately $81,000 and $53,000, respectively.

### *NOTE J - CAPITAL LEASE PAYABLE*

Equipment under capital leases consist of one copier and one telephone system with a combined capitalized cost of $27,935. Accumulated depreciation at June 30, 2014 and 2013 was $11,890 and $6,421, respectively. Depreciation expense reported in the consolidated statements of activities for the years ended June 30, 2014 and 2013 was $5,469 and $3,503, respectively. Minimum payments required under the capital lease during the following fiscal years ending June 30, are as follows:

| *Years Ended June 30,* | *Amount* |
|---|---|
| 2015 | $ 5,918 |
| 2016 | 5,918 |
| 2017 | 2,776 |
| 2018 | 2,148 |
| 2019 | 895 |
| Total minimum lease payments | 17,655 |
| Less interest portion included in payments | (888) |
| Present value of lease obligation | $ 16,767 |

### *NOTE K - LINES-OF-CREDIT AND NOTES PAYABLE*

| | 2014 | 2013 |
|---|---|---|
| ***Lines-of-credit*** | | |
| Line-of-credit from a bank secured in August 2012, due August 13, 2013, with interest payable monthly at libor plus 2.5% (currently 3%), unsecured. Credit is limited to $150,000. | $ - | $ 25,000 |
| Line-of-credit from Neighborhood Lending Partners of West Florida secured in July 2011, due July 2014, interest accrues at 6% on the outstanding balance. Credit is limited to $500,000. The amount of unused line-of-credit at June 30, 2014 and 2013, was $435,000 and $467,500, respectively (see ***NOTE R***) | 65,000 | 32,500 |
| Line-of-credit from the City of Clearwater as part of the Neighborhood Stabilization Program (NSP3) secured in January 2013, due in September 2015, interest is 0%. Credit is limited to $327,500. The amount of unused line-of-credit at June 30, 2014 and 2013, was $74,643 and $114,500, respectively (see ***NOTE R***) | 252,857 | 213,000 |
| Line-of-credit from a related party (see ***NOTES Q*** and ***R***) passed through the City of Clearwater as part of the Neighborhood Stabilization Program (NSP3) to the Pinellas County Habitat for Humanity Community Development Organization (Pinellas CHDO) secured in January 2013, due in September 2015, interest is 0%. Credit is limited to $225,808. The amount of unused line-of-credit at June 30, 2014 and 2013, was $170,099 and $75,646, respectively (see ***NOTE Q***) | 55,709 | 150,162 |
| ***Total lines-of-credit*** | 373,566 | 420,662 |

***NOTE K - LINES-OF-CREDIT AND NOTES PAYABLE - CONTINUED***

***Notes payable***

| | | |
|---|---|---|
| Mortgage payable to a bank, balloon payment due March of 2019, including interest paid quarterly beginning May 28, 2008 at 5.54% until maturity, collateralized by unimproved real estate for the Lake Butler property | 198,532 | 224,265 |
| Loan payable to Habitat International as part of the SHOP 2010 grant, various payments totaling $545 paid monthly beginning Jan 2015 at 0% interest until maturity at Jan 2019 | 45,778 | 26,250 |
| Loan payable to Habitat International as part of the SHOP 2011 grant, various payments totaling $456 paid monthly beginning Jan 2015 at 0% interest until maturity at Jan 2019 | 21,900 | 15,837 |
| Loan payable to Habitat International as part of the SHOP 2012 grant, various payments totaling $362 paid monthly beginning July 2015 at 0% interest until maturity at July 2020 | 17,501 | 6,313 |
| Loan payable to Habitat International as part of the SHOP 2013 grant, payments totaling $74 paid monthly beginning Jan 2015 at 0% interest until maturity at Jan 2019 | 3,563 | - |
| Mortgage payable of $1,425,000 for the land purchase on the Stevens Creek property to Pinellas County Board of Commissioners with 0% interest and payment deferred until December 31, 2015, with interest thereon at 3% per year for the remainder of the thirty (30) year term, interest and principal payments of $6,310 per month beginning January 2015 continuing until maturity at October 1, 2043, collateralized by Stevens Creek property. Outstanding balance is the amount of draw downs to date | 556,102 | 723,747 |

***NOTE K - LINES-OF-CREDIT AND NOTES PAYABLE - CONTINUED***

***Notes payable - Continued***

| | 2014 | 2013 |
|---|---|---|
| Mortgage payable to City of Clearwater for the land purchase of Stevens Creek with 0% interest and payment deferred until December 31, 2015, with interest thereon at 3% per year for the remainder of the thirty (30) year term, to pay $12,000 each time a house is sold, with any remaining balance including principal and interest due and payable upon maturity at September 29, 2038 | 234,863 | 305,563 |
| Mortgage payable to the Pinellas County Board of Commissioners of $640,000 was modified on September 24, 2009 increasing the original principal balance of $277,000 by $363,000 for a total loan amount of $640,000. This loan is for infrastructure on the Shady Grove property with 0% interest and payment deferred until October 1, 2014, with interest thereon at 3% per year for the remainder of the thirty (30) year term, interest and principal payments of $2,760 per month beginning October 31, 2014 continuing until maturity at October 1, 2043, collateralized by Shady Grove property. Outstanding balance is the amount of draw downs to date | 359,341 | 408,142 |
| Note payable to Pinellas County Board of Commissioners for the land purchase of Havens Ridge with 0% interest and a balloon payment of remaining balance upon extended maturity at September 30, 2015, collateralized by Havens Ridge property. Upon the sale of units a portion of the loan is paid down resulting in a partial release of the lien on the sold property | 411,908 | 411,908 |
| Note payable due to Northern Trust for the mortgaged property on 2226 Court Street and 3460 19th Avenue. These properties were defaulted on by two separate homeowners and are currently being paid by Habitat until they find new homeowners | 81,060 | 84,456 |

***NOTE K - LINES-OF-CREDIT AND NOTES PAYABLE - CONTINUED***

***Notes payable - Continued***

| | 2014 | 2013 |
|---|---|---|
| Note payable of $175,000 due to JTG Enterprises, Inc. with a maturity date of September 2016, for tenant improvements of both office area and warehouse retail space with interest thereon at 6% over the life of the initial five-year lease term | 74,881 | 109,881 |
| Note payable from Pinellas Funding to PNC Community Development Company, LLC monthly payments of $2,843 at 0% interest until maturity at June 2043, collateralized by assignment of notes. Imputed interest at 3% is eliminated at the consolidated level (see ***NOTE T***) | 975,806 | - |
| Note payable to Pinellas County Board of Commissioners for the purchase of 46th Ave Subdivision with 0% interest and a maturity date at the earlier of the borrowers' sale of property or December 2016, collateralized by land | 205,000 | - |
| Note payable of $19,750 due to Northern Trust for a company vehicle, principal and interest payments of $369 paid monthly at 4.5% interest until maturity at July 2016, collateralized by a vehicle | 8,780 | 12,708 |
| Note payable to CCM (see ***NOTE I***), debt requires interest only payments until November 2020 at .7608% until maturity in November 2028, secured by substantially all the assets acquired by Habitat from the project loan proceeds, put option feature that is exercisable July 2028 | 1,880,000 | 1,880,000 |

***NOTE K - LINES-OF-CREDIT AND NOTES PAYABLE - CONTINUED***

***Notes payable - Continued***

| | 2014 | 2013 |
|---|---|---|
| Note payable to HFHI-SA Leverage IX, LLC (see ***NOTE I***), debt requires interest only payments until November 2020 at .755% until maturity in November 2028, secured by substantially all the assets acquired by Habitat from the project loan proceeds, put option feature that is exercisable July 2028 | 2,023,656 | 2,023,656 |
| ***Total notes payable*** | 7,098,671 | 6,232,726 |
| ***Total lines-of-credit and notes payable*** | $ 7,472,237 | $ 6,653,388 |

Interest rate used to discount the PNC note payable was determined based on the market rates for similar type of notes on the origination dates. Management determined 3% to be reasonable.

The following is a summary of future debt maturities as of June 30, 2014.

| *Years Ended June 30,* | *Amount* |
|---|---|
| 2015 | $ 375,982 |
| 2016 | 545,965 |
| 2017 | 334,149 |
| 2018 | 126,080 |
| 2019 | 115,562 |
| Thereafter | 5,600,933 |
| | $ 7,098,671 |

### *NOTE L - TEMPORARILY RESTRICTED NET ASSETS*

Temporarily restricted net assets at June 30, 2014 and 2013 were as follows:

| | 2014 |
|---|---|
| Unconditional promises to give, net of unamortized discount | $ 23,258 |
| Use restriction | 261,745 |
| Donated labor and materials | 146,235 |
| Donated land | 818,572 |
| | $ 1,249,810 |

| | 2013 |
|---|---|
| Unconditional promises to give, net of unamortized discount | $ 25,987 |
| Donated labor and materials | 102,969 |
| Donated land | 823,757 |
| | $ 952,713 |

Net assets released from restrictions were comprised of the following:

| | 2014 |
|---|---|
| Unconditional promises to give, net of unamortized discount | $ 5,318 |
| Use restriction | 64,831 |
| Donated labor and materials | 34,224 |
| Donated land | 836,194 |
| | $ 940,567 |

| | 2013 |
|---|---|
| Unconditional promises to give, net of unamortized discount | $ 12,468 |
| Donated labor and materials | 450,318 |
| Donated land | 312,785 |
| | $ 775,571 |

### *NOTE M - LEASES*

The Organization entered into a 60-month lease agreement for office and warehouse space in April 2011 and began operations at the new location on August 22, 2011. Monthly rent is approximately $13,000 plus 5% of ReStore gross sales, with future annual increases. Total rent expense was approximately $190,000 and $184,000 for the years ended June 30, 2014 and 2013, respectively.

Based on the terms of the agreements, the minimum payments, excluding the percentage of Habitat ReStore's gross sales, due on all leases are as follows:

| *Years Ended June 30,* | *Amount* |
|---|---|
| 2015 | $ 166,852 |
| 2016 | 171,865 |
| 2017 | 28,784 |
| | $ 367,501 |

### *NOTE N - IMPAIRMENT ON LAND AND PROPERTY*

During the years ended June 30, 2014 and 2013, the Organization recorded $222,544 and $54,448 respectively, for impairment on multiple parcels of land held for future construction and property held for investment. These properties were donated and purchased in prior years and rerecorded at the fair market value at the time of acquisition. Based on current appraisals and comparable sales it was determined these properties were impaired. The loss is reported as a separate line item in the consolidated statements of activities. This land and property will be used for eligible homeowners in the future.

### *NOTE O - COMMITMENTS AND CONTINGENCIES*

The Organization is exposed to various asserted and unasserted potential claims encountered in the normal course of business. In the opinion of management, the resolution of these matters will not have a material effect on the Organization's consolidated financial position or the results of its operations.

### *NOTE P - TRANSACTIONS WITH HABITAT INTERNATIONAL*

The Organization remits a portion of its unrestricted contributions to Habitat International as tithe to support its operations. The Organization contributed $113,400 and $105,000 to Habitat International during the years ended June 30, 2014 and 2013, respectively. These amounts are included in program services expense in the consolidated statements of activities. At June 30, 2014 and 2013, the Organization owed Habitat International $-0- and $28,200, respectively, and is reflected as a component of accrued expenses in the consolidated statements of financial position.

### *NOTE Q - RELATED PARTY*

On August 31, 2010, the Pinellas County Habitat for Humanity Community Development Organization (Pinellas CHDO) was incorporated as a not-for-profit organization in accordance with the laws of the State of Florida. The Pinellas CHDO is wholly owned by the Organization and has been certified by Pinellas County, Florida as a Community Housing Development Organization (CHDO). This means that Pinellas CHDO has met the requirements as specified by the U.S. Department of Housing and Urban Development (HUD) to act in the capacity of a CHDO. In 2013, the Organization paid approximately $3,000 of legal expenses associated with incorporating the CHDO.

As such, Pinellas CHDO will be eligible to participate in government programs that provide special set-aside funds that can be used to provide affordable housing to low income families within Pinellas County. As of June 30, 2014, approximately $77,000 was awarded to and $172,000 was expended by Pinellas CHDO in 2014. As of June 30, 2014, approximately $194,000 was awarded to and $43,000 was expended by Pinellas CHDO in 2013. As of June 30, 2014 and 2013, approximately $-0- and $16,000, respectively, is due from Pinellas CHDO for land costs and is reported as due from affiliate in the consolidated statements of financial position.

In 2013, the Organization received a line-of-credit from Pinellas CHDO passed through the City of Clearwater as part of NSP3 (see ***NOTES K*** and ***R***). The balance on this line-of-credit was $55,709 and $150,162 at June 30, 2014 and 2013, respectively.

### *NOTE R - NEIGHBORHOOD STABILIZATION PROGRAM*

In 2012, the Organization entered into a loan agreement with the City of Clearwater to build new affordable homes on its Stevens Creek lots. The City of Clearwater received funding for this agreement from the Federal government under the Neighborhood Stabilization Program 2 (NSP2) of the Housing and Economic Recovery Act of 2008. Under this agreement, Habitat is to receive reimbursement of its costs up to $32,500 per property from the City of Clearwater.

***NOTE R - NEIGHBORHOOD STABILIZATION PROGRAM - CONTINUED***

The homebuyers are required to be Very Low Income Qualified Homebuyers (defined by HUD as households whose annual income does not exceed 80% of the median household income in the area of the project). The properties closed under this program have land use restrictive covenants, which require that properties continue to be the principal residence of an owner whose family qualifies as a Very Low Income Qualified Family (as determined by HUD regulations) for a period of 20 consecutive years.

Loan proceeds and principal payments made on the NSP2 loan for June 30, 2014 were $227,500 and $195,000, respectively. Loan proceeds and principal payments made on the NSP2 loan for June 30, 2013 were $260,000 and $47,000, respectively. NSP2 loan balance at June 30, 2014 and 2013 was $65,000 and $32,500, respectively (see ***NOTE K***).

In January 2013, the Organization entered into another loan agreement with the City of Clearwater to build additional homes on its Stevens Creek lots. The City of Clearwater received funding for this agreement from the Federal government under the Neighborhood Stabilization Program 3 (NSP3) of the Housing and Economic Recovery Act of 2008. Loan proceeds and principal payments made on the NSP3 loan for June 30, 2014 were $65,857 and $26,000, respectively. Loan proceeds and principal payments made on the NSP3 loan for June 30, 2013 were $292,500 and $325,000, respectively. NSP3 loan balance at June 30, 2014 and 2013 was $252,857 and $213,000, respectively (see ***NOTE K***).

The Organization also received a line-of-credit from Pinellas Habitat CHDO passed through the City of Clearwater as part of NSP3 (see ***NOTES K*** and ***Q***). The balance on this line-of-credit at June 30, 2014 and 2013 was $55,709 and $150,162, respectively.

***NOTE S - COMMUNITY DEVELOPMENT BLOCK GRANT***

On June 15, 2006, the Organization was awarded a Community Development Block Grant (Grant) from Pinellas County, Florida in the amount of $350,000. Under the Grant, the Organization shall acquire 2.5 acres of land in Dunedin, Florida for the future construction of at least eighteen affordable home ownership housing units. Both an asset and a corresponding liability of $350,000, as deferred affordable housing note, are reflected in the June 30, 2014 and 2013 consolidated statements of financial position for this associated promissory note.

### *NOTE T - SALE OF MORTGAGES WITH PNC BANK*

In August 2013, Pinellas Funding Company I, LLC was formed as a single member LLC with Habitat as the member. Pinellas Funding acquired seven mortgages from Habitat for a total of $1,004,236, resulting in Habitat recognizing a gain of $337,814 to remove the unamortized discount on each original mortgage. Pinellas Funding then entered into a note purchase agreement with PNC Bank. Pinellas Funding authorized the issuance and sale of a secured note in the amount of $1,004,236 to PNC Bank for $666,422 on August 29, 2013. See ***NOTE K*** for terms and outstanding balance of the PNC note payable. The difference of $337,814 from the sale with PNC was recorded as a loss on the books of Pinellas Funding and subsequently eliminated against $337,814 of income recognized on Habitat's books for removal of the unamortized discount on the original mortgages.

These two entities are consolidated and all intercompany amounts are eliminated including the interest income on the unamortized discount of the mortgages receivable and the interest expense related to the imputed interest of the PNC note payable.

### *NOTE U - SUBSEQUENT EVENTS*

The Organization evaluated subsequent events through October 9, 2014, the date the financial statements were available and issued. The Organization is not aware of any subsequent events which would require recognition or disclosures in the financial statements.

***SUPPLEMENTARY INFORMATION***

## *SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS*

*JUNE 30, 2014*

| *Federal Agency*<br>*Pass-through Entity*<br>*Federal Program* | *CFDA Number* | *Expenditures* |
|---|---|---|
| **U.S. Department of Housing and Urban Development (HUD)** | | |
| *Passed through Pinellas County, Florida* | | |
| Community Development Block Grant | 14.218 | $ 350,000 * |
| *Passed through the City of Clearwater, Florida* | | |
| Neighborhood Stabilization Program 3 (NSP3) | 14.218 | 252,857 * |
| | | 602,857 |
| *Passed through Pinellas County, Florida* | | |
| HOME Investment Partnerships Program – Shady Grove | 14.239 | 359,342 * |
| HOME Investment Partnerships Program – Stevens Creek | 14.239 | 556,102 * |
| *Passed through the City of St. Petersburg, Florida* | | |
| HOME Investment Partnerships Program | 14.239 | 87,500 |
| | | 1,002,944 |
| *Passed through Pinellas County, Florida* | | |
| Neighborhood Stabilization Program 2 (NSP2) | | |
| *American Recovery and Reinvestment Act (ARRA Funds)* | 14.256 | 65,000 * |
| *Passed through Habitat for Humanity International, Inc.* (see **NOTE C**) | | |
| Self-Help Homeownership Opportunity Program | 14.247 | 88,742 * |
| Self-Help Homeownership Opportunity Program | 14.247 | 121,023 |
| | | 209,765 |
| ***Total Expenditures of Federal Awards*** | | $ 1,880,566 |

** This represents the balance of a loan from a previous year for which the federal government imposes continuing compliance requirements.*

***See notes to schedule of expenditures of federal awards***

### *NOTE A - BASIS OF PRESENTATION*

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Habitat for Humanity of Pinellas County, Inc. (Habitat) and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with accounting principles generally accepted in the United States of America as applicable to not-for-profit organizations and the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*.

### *NOTE B - CONTINGENCIES*

Expenditures incurred by Habitat are subject to audit and possible disallowance by the grantor agency. Management believes that if audited, any adjustments for disallowed expenses would be immaterial in amount.

### *NOTE C - SELF-HELP HOMEOWNERSHIP OPPORTUNITY PROGRAM*

HUD's Self-Help Homeownership Opportunity Program (SHOP) grants and loans were passed through to Habitat by Habitat for Humanity International, Inc. (Habitat International). The SHOP Agreement stipulates that 75% of each sub-grant from Habitat International to the affiliate is in the form of a grant and 25% is in the form of a loan. The awards provided under CFDA 14.247 for SHOP were as follows for the year ended June 30, 2014:

| *Pass-Through Grantor* | *Identifying Number* | *Federal Expenditures* |
|---|---|---|
| Habitat International | SHOP 2010 – Existing Loans | $ 26,250 * |
| Habitat International | SHOP 2010 – New Loans (25%) | 19,528 |
| Habitat International | SHOP 2011 – Existing Loans | 15,837 * |
| Habitat International | SHOP 2011 – New Loans (25%) | 6,063 |
| Habitat International | SHOP 2012 – Existing Loans | 6,313 * |
| Habitat International | SHOP 2012 – New Loans (25%) | 11,188 |
| Habitat International | SHOP 2013 – New Loans (25%) | 3,563 |
| | | 88,742 |
| Habitat International | SHOP 2010 – New Grant (75%) | 58,585 |
| Habitat International | SHOP 2011 – New Grant (75%) | 18,188 |
| Habitat International | SHOP 2012 – New Grant (75%) | 33,563 |
| Habitat International | SHOP 2013 – New Grant (75%) | 10,687 |
| | | 121,023 |
| | | $ 209,765 |

** This represents the balance of a loan from a previous year for which the federal government imposes continuing compliance requirements.*

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## *INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS*

Board of Directors
Habitat for Humanity of Pinellas County, Inc. and Subsidiary

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity of Pinellas County, Inc. and Subsidiary (Habitat), which comprise the statement of financial position as of June 30, 2014, and the related statements of activities, cash flows, and functional expenses for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated October 9, 2014.

### *Internal Control Over Financial Reporting*

In planning and performing our audit of the financial statements, we considered Habitat's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control. Accordingly, we do not express an opinion on the effectiveness of Habitat's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

***CONTINUED***

***INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS - CONTINUED***

***Compliance and Other Matters***

As part of obtaining reasonable assurance about whether Habitat's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

***Purpose of this Report***

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Habitat's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

PDR Certified Public Accountants

Clearwater, Florida
October 9, 2014

pdr
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# *INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133*

Board of Directors
Habitat for Humanity of Pinellas County, Inc. and Subsidiary

## *Report on Compliance for Each Major Federal Program*

We have audited Habitat for Humanity of Pinellas County, Inc. and Subsidiary (Habitat's) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Habitat's major federal programs for the year ended June 30, 2014. Habitat's major federal programs are identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

## *Management's Responsibility*

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

## *Auditors' Responsibility*

Our responsibility is to express an opinion on compliance for each of Habitat's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Habitat's compliance.

***CONTINUED***

## *INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133 - CONTINUED*

### *Opinion on Each Major Federal Program*

In our opinion, Habitat complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2014.

### *Report on Internal Control over Compliance*

Management of Habitat is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat's internal control over compliance.

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

PDR Certified Public Accountants

Clearwater, Florida
October 9, 2014

## *SCHEDULE OF FINDINGS AND QUESTIONED COSTS*

***JUNE 30, 2014***

### *Part I - Summary of Auditors' Results*

***Financial Statements Section***

| | |
|---|---|
| Type of auditors' report issued: | Unmodified |

Internal control over financial reporting:

| | |
|---|---|
| Material weakness(es) identified? | ___ yes _X_ no |
| Significant deficiency(ies) identified not considered to be material weakness(es)? | ___ yes _X_ none reported |
| Noncompliance material to financial statements noted? | ___ yes _X_ no |

***Federal Awards Section***

Internal control over major federal programs:

| | |
|---|---|
| Material weakness(es) identified? | ___ yes _X_ no |
| Significant deficiency(ies) identified not considered to be material weakness(es)? | ___ yes _X_ none reported |
| Type of auditors' report on compliance for major federal programs: | Unmodified |
| Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? | ___ yes _X_ no |

Identification of major federal programs:

Federal Programs:

| CFDA Numbers | Name of Program of Cluster |
|---|---|
| 14.239 | U.S. Department of Housing and Urban Development<br>HOME Investment Partnerships Program |
| 14.247 | U.S. Department of Housing and Urban Development<br>Self-Help Homeownership Opportunity Program |

Dollar threshold used to determine Type A programs:

| | |
|---|---|
| Federal programs | $ 300,000 |

| | |
|---|---|
| Auditee qualified as low-risk auditee for federal purposes? | _X_ yes ___ no |

### *Part II - Schedule of Financial Statement Findings*

There were no reportable findings.

### *Part III - Federal Award Findings and Questioned Costs*

There were no reportable findings.

### *Summary Schedule of Prior Audit Findings*

A Summary Schedule of Prior Audit Findings is not necessary since there were no prior audit findings.