

HABITAT FOR HUMANITY OF
MISSOULA, INC.
Missoula, Montana

AUDITED FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

For the Year Ended
June 30, 2014

Cote & Associates, CPA, PLLC
PO Box 430
Missoula, MT 59806
406-543-8088

HABITAT FOR HUMANITY OF MISSOULA, INC.

June 30, 2014

TABLE OF CONTENTS

Independent Auditor's Report	Page 1
List of Board Members	Page 2
Financial Statements	
Statement of Financial Position As of June 30, 2014	Page 3
Statement of Activities For the Period Ended June 30, 2014	Page 4
Statement of Functional Expense For the Period Ended June 30, 2014	Page 5
Statement of Cash Flows For the Period Ended June 30, 2014	Page 6
Notes to Financial Statements	Pages 7-12

COTE & ASSOCIATES, CPA, PLLC

Phone: 406-543-8088
Fax: 406-721-9357

1225 Cleveland, Suite 1
P.O. Box 430
Missoula, MT 59806

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of Missoula, Inc.
PO Box 7181
Missoula, MT 59807

Report on the Financial Statements

I have audited the accompanying statement of financial position of Habitat for Humanity of Missoula, Inc. (Habitat) as of June 30, 2014, 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

My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of 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 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, I 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

In my opinion, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Habitat, as of June 30, 2014 and the changes in its net position and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Cote & Associates, CPA, PLLC
Missoula, MT
November 19, 2014

LIST OF BOARD MEMBERS

For the Year Ended June 30, 2014

President	Josh Eder
Vice President	Adam Hertz
Vice President-2 nd	Mike Bryan
Treasurer	Conor Newman
Secretary	Alexis Willey
Executive Director	Frankie McBurney Olson
Member	Pat Boyle
Member	Jessica Hawn-Resigned March 2014
Member	Tracy Neighbor Johnson
Member	Gerhard Knudsen
Member	Don Livingston
Member	Chris Martison
Member	Lynn Schwanke
Member	Dick Twilde

HABITAT FOR HUMANITY OF MISSOULA, INC.

Statement of Financial Position
As of June 30, 2014

ASSETS			
Current Assets	Unrestricted	Permanently Restricted	Total
Cash & cash equivalents	\$ 437,842	\$ -	\$ 437,842
Current portion of mortgage receivable	86,217	-	86,217
Prepaid expenses	310	-	310
Re-Store inventory for re-sale	15,082	-	15,082
Home construction in progress			
Land	\$ 102,990	\$ -	\$ 102,990
Dwelling	115,158	-	115,158
Total home construction in progress	\$ 218,148	\$ -	\$ 218,148
Total Current Assets	\$ 757,599	\$ -	\$ 757,599
Non-Current Assets			
Homes for resale	\$ 95,149	\$ -	\$ 95,149
Restricted investments	-	26,088	26,088
Rental deposit	3,700	-	3,700
Property and equipment	\$ 29,938	\$ -	\$ 29,938
Accumulated depreciation	(23,901)	-	(23,901)
Total property and equipment	\$ 6,037	\$ -	\$ 6,037
Mortgages receivable			
Face amount of mortgages	\$ 1,571,349	\$ -	\$ 1,571,349
Discount to estimated fair value	(981,775)	-	(981,775)
Mortgages receivable, net	\$ 589,574	\$ -	\$ 589,574
Total Non-Current Assets	\$ 694,460	\$ 26,088	\$ 720,548
TOTAL ASSETS	\$ 1,452,059	\$ 26,088	\$ 1,478,147
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	\$ 30,205	\$ -	\$ 30,205
Current portion of notes payable	2,500	-	2,500
Prepaid mortgage liability	1,500	-	1,500
Deferred revenue	33,785	-	33,785
Total Current Liabilities	\$ 67,990	\$ -	\$ 67,990
Non-Current Liabilities			
Paid time off liability	\$ 17,632	\$ -	\$ 17,632
Long-term notes payable	79,412	-	79,412
Total Non-Current Liabilities	\$ 97,044	\$ -	\$ 97,044
TOTAL LIABILITIES	\$ 165,034	\$ -	\$ 165,034
NET POSITION			
Unrestricted	\$ 1,287,025	\$ -	\$ 1,287,025
Permanently restricted	-	26,088	26,088
TOTAL NET POSITION	\$ 1,287,025	\$ 26,088	\$ 1,313,113
TOTAL LIABILITIES AND NET POSITION	\$ 1,452,059	\$ 26,088	\$ 1,478,147

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

HABITAT FOR HUMANITY OF MISSOULA, INC.

Statement of Activities
For the Period Ended June 30, 2014

REVENUES	<u>Unrestricted</u>	<u>Permently Restricted</u>	<u>Total</u>
Donations			
Cash	\$ 83,981	\$ 6,000	\$ 89,981
Grants	94,619	-	94,619
In-kind services and materials	38,477	-	38,477
Special events	20,495	-	20,495
Total donations	<u>\$ 237,572</u>	<u>\$ 6,000</u>	<u>\$ 243,572</u>
Re-Store cash donations	\$ 7,675	\$ -	\$ 7,675
Re-Store in-kind donations	6,582	-	6,582
New partner home sales	117,063	-	117,063
Mortgage discount amortization	50,302	-	50,302
Interest earnings	2,213	963	3,176
Other income	7,347	-	7,347
TOTAL REVENUES	<u>\$ 428,754</u>	<u>\$ 6,963</u>	<u>\$ 435,717</u>
EXPENSES			
Program services			
Cost of partner homes sold	\$ 194,856	\$ -	\$ 194,856
Mortgage discount expense	-	-	-
Other program expense	105,898	-	105,898
Total program services	<u>\$ 300,754</u>	<u>\$ -</u>	<u>\$ 300,754</u>
Support services			
Management and general	\$ 23,582	\$ -	\$ 23,582
Fundraising	14,718	-	14,718
Total support services	<u>\$ 38,300</u>	<u>\$ -</u>	<u>\$ 38,300</u>
TOTAL EXPENSES	<u>\$ 339,054</u>	<u>\$ -</u>	<u>\$ 339,054</u>
CHANGE IN NET POSITION	\$ 89,700	\$ 6,963	\$ 96,663
NET POSITION-Beginning of Year	\$ 1,215,904	\$ 19,125	\$ 1,235,029
Removal of combined entity	(18,579)	-	(18,579)
NET POSITION-Beginning of Year	<u>\$ 1,197,325</u>	<u>\$ 19,125</u>	<u>\$ 1,216,450</u>
NET POSITION-End of Year	<u><u>\$ 1,287,025</u></u>	<u><u>\$ 26,088</u></u>	<u><u>\$ 1,313,113</u></u>

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

Habitat for Humanity of Missoula, Inc.

Statement of Functional Expense
For the Period Ended June 30, 2014

UNRESTRICTED EXPENSE	Program Services			Support Services		Total
	Cost of Partner Homes Sold	Mortgage Discount	Other Program	Management & General	Fundraising	
Accounting fees	\$ -	\$ -	\$ 3,162	\$ 6,825	\$ -	\$ 9,987
Advertising	-	-	81	371	58	510
Audit fees	-	-	3,617	877	986	5,480
Bank fees	-	-	239	126	-	365
Conference and seminars	-	-	639	283	25	947
Construction	158,075	-	-	-	-	158,075
Depreciation	-	-	318	-	-	318
Disposal	420	-	-	-	-	420
Discount expense	-	-	-	-	-	-
Dues and subscriptions	-	-	3,757	-	-	3,757
Insurance	-	-	5,143	1,107	757	7,007
Licenses	-	-	86	15	-	101
Meals and entertainment	-	-	-	15	-	15
Mission specific costs	-	-	10,293	-	-	10,293
Office supplies	-	-	1,804	437	492	2,733
Payroll taxes & workers' comp.	5,853	-	5,298	766	865	12,782
Postage and shipping	-	-	587	142	160	889
Printing and publications	-	-	3,181	771	868	4,820
Rent	-	-	9,368	3,978	2,225	15,571
Restore expense	-	-	963	-	-	963
Salaries	30,508	-	52,281	7,869	8,282	98,940
Tithe expense	-	-	4,969	-	-	4,969
Travel	-	-	112	-	-	112
TOTAL UNRESTRICTED EXPENSE	\$ 194,856	\$ -	\$ 105,898	\$ 23,582	\$ 14,718	\$ 339,054

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

Habitat for Humanity of Missoula, Inc.

Statement of Cash Flows
For the Period Ending June 30, 2014

CASH FLOWS FROM/(TO) OPERATING ACTIVITIES	
Cash received from	Habitat
Donations	\$ 97,656
Grants	94,619
New partner home sales	116,563
Interest earnings	2,213
Other	21,915
Cash paid for	
Employees	\$ (104,244)
Operational expenses	(38,454)
Cost of homes	(203,081)
NET CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>\$ (12,813)</u>
CASH FLOWS FROM/(TO) INVESTING ACTIVITIES	
Endowment donations and interest	\$ 6,000
Mortgage payments received	88,429
Mortgage down payments	1,500
Cash invested in homes for re-sale	(5,492)
NET CASH FLOWS PROVIDED/(USED) BY INVESTING ACTIVITIES	<u>\$ 90,437</u>
NET INCREASE/(DECREASE) IN CASH AND INVESTMENTS	\$ 77,624
CASH AND INVESTMENTS - Beginning of year	\$ 386,306
CASH AND INVESTMENTS - End of year	<u>\$ 463,930</u>
Reconciliation to cash and investments in Statement of Net Position	
Unrestricted cash	\$ 437,842
Restricted investments	26,088
Total cash and investments-end of year	<u>\$ 463,930</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES	
CASH FLOWS FROM/(TO) OPERATING ACTIVITIES	
Increase/(decrease) in unrestricted net position for the year	\$ 96,663
Adjustments to reconcile change in unrestricted net position to operating cash flows:	
Depreciation	\$ 318
Decrease/(increase) in:	
Accounts and other receivables	\$ 88,429
Prepaid expenses	3,713
Home construction-in-progress	(62,154)
Other assets	(17,919)
Increase/(decrease) in:	
Mortgage discounts	\$ (50,300)
Deferred revenue	(1,438)
Accounts payable and accrued liabilities	17,439
Compensated absences	4,265
Other liabilities	(1,392)
NET CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES	<u>\$ 77,624</u>

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

Habitat for Humanity of Missoula, Inc.

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization – Habitat for Humanity of Missoula, Inc. (Habitat) is affiliated with Habitat for Humanity International, Inc. (Habitat International). The Missoula organization was founded in 1990 as a nonprofit, ecumenical Christian housing ministry following the international mission to eliminate poverty, housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, Habitat builds simple, decent houses with the help of low-income homeowner families. The organization focuses its efforts in Missoula County.

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

Fiscal Year – Habitat for Humanity of Missoula reports on a fiscal year of July 1 to the following June 30.

Fair Value – Habitat follows fair value measurements and disclosure guidance established by the Financial Accounting Standards Board (FASB) in codification topic 820-10-50. Assets or liabilities which are measured using fair market value contain a reference in the note to the "level" of measurement hierarchy as represented by the following:

- Level 1 – Quoted prices in active markets for identical assets or liabilities.
- Level 2 – Observable inputs.
- Level 3 – Unobservable inputs.

Cash and Cash Equivalents – Habitat treats all investments having initial maturities of three months or less as cash equivalents for purposes of these financial statements.

Tax Status – Habitat is exempt from federal income tax under Section 501c(3) of the Internal Revenue Code (IRC). Habitat does not operate any activities which would be classified as "Unrelated Business Income" under Internal Revenue Service rules.

Basis of Accounting – Habitat prepares its financial statements on the accrual basis of accounting, according to the policies of Habitat International and generally accepted accounting principals in the United States of America (GAAP). Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Revenues from the sale of houses are recognized at the date of transfer to the home buyer. Construction costs for each home are capitalized and carried as a construction in progress asset until the date of transfer of the home, at which time the costs are expensed.

Construction in Progress Assets – Land acquired for homes along with materials, labor, supplies, services and other costs of building are recorded as Construction-in-Progress assets until expensed at the time of transfer of ownership of a property.

In-Kind Contributions of Land, Materials and Services – As required by Financial Accounting Standards Board (FASB) codification section 958-605-25-16, contributed service revenue results when donated contributions create or enhance non-financial assets or when specialized skills are provided by people possessing those skills that would typically be purchased, if not provided by contribution. Contributions of land, construction materials and supplies are recorded at estimated fair value at the time of donation. In-kind services and materials donated to Habitat that are included in the financial statements for the period ended June 30, 2014 totaled \$45,059.

Habitat for Humanity of Missoula, Inc.

Notes to the Financial Statements
June 30, 2014

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Contributed support is reported as unrestricted, temporarily restricted or restricted depending upon the existence of donor stipulations. Temporarily restricted contributions whose restrictions have been fulfilled in the current year are reported as unrestricted.

Other contributed services are tracked internally for but do not appear in the financial statements. Individuals and organizations contributed 7,127 hours during fiscal 2014.

Estimates – The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from estimates.

Property and Equipment – Habitat capitalizes equipment with a value of \$1,000 or more. Lesser amounts are expensed. Equipment, whether purchased or donated, is recorded at cost or estimated fair market value at the time of acquisition. Donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation is recorded on a straight-line basis over the estimated useful life.

Compensated Absences – It is Habitat’s policy to permit employees to accumulate earned but unused paid time off benefits. Unused paid time off benefits are 100% payable upon termination. Such amounts are reported as liabilities in the appropriate statement of financial position. Paid time off accrues biweekly and accumulates into a paid leave account according to the following schedule for full-time employees.

1 st and 2 nd years.....	18 days (144 hours) per year
3 rd , 4 th , and 5 th years.....	24 days (192 hours) per year
6 or more years.....	30 days (240 hours) per year

Regularly scheduled part-time employees accrue paid time off in proportion to their usual workweek as a percentage of 40 hours per week. Employees begin accruing paid time off from the beginning of the pay period in which they begin work. Changes in annual accrual amounts begin the next pay period following the start of the 3rd and 6th year of work. Employees may accumulate up to 30 days (240 hours) of paid time off. At that point, the employee will stop accumulating paid time off until the employee’s balance drops below the 240-hour limit. Employees who terminate their employment will receive payment for accrued paid time off at their regularly hourly rate.

Categories of Net Position – The net positions of Habitat are reported in the following categories:

Unrestricted Net Position – generally have no donor-imposed restrictions. This category includes net amounts that have been earned and expended according to grant conditions and general unrestricted activities.

Temporarily Restricted Net Position – include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose is not permanently restricted. As of June 30, 2014 no donor restrictions affected temporarily restricted net position.

Permanently Restricted Net Position – result from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time, nor are fulfilled or otherwise removed by actions of Habitat. As of June 30, 2014, Habitat had permanently restricted net position of \$26,088 in an endowment fund.

Advertising – Habitat expenses advertising costs as incurred. Advertising expenses were \$510 for the period ended June 30, 2014.

Habitat for Humanity of Missoula, Inc.

Notes to the Financial Statements
June 30, 2014

NOTE 2: REMOVAL OF COMBINED ENTITY

Prior to July 1, 2014 Habitat's financial statements included a combined entity known as the Partnership Condominium Association (Association). In early fiscal 2014 the Association attained independent status under its bylaws and generally accepted accounting principles. The Association is no longer included in Habitat financial statements.

NOTE 3: SHORT TERM NOTES RECEIVABLE

Habitat occasionally makes short term loans to partner families who want construction upgrades. At June 30, 2014, there were no receivables of this kind on Habitat financials. Because of the short term nature of these notes, no discount to fair value is applied.

NOTE 4: PREPAID EXPENSES

As of June 30, 2014, Habitat had \$310 in prepaid expenses; consisting of \$310 in liability insurance.

NOTE 5: INVESTMENTS

Investment activity for fiscal 2014 was:

Endowment at June 30, 2013	\$	19,125
Fiscal 2014 donations to endowment		6,000
Interest earned Fiscal 2014		963
Endowment at June 30, 2014	\$	<u>26,088</u>

The corpus of the endowment will continue to grow from donations and interest until it reaches a level which is not yet determined. Once the full corpus is established interest earnings will be available to fund operations of Habitat. The corpus is reported at the cash value of donations and interest at the time of donation which is a level 1 fair market value input as listed in Note 1.

At June 30, 2011 the endowment corpus was invested with a trading firm in money market securities. The investment account is subject to annual fees and changes in the value of currency; the unrealized loss on investment in a level 2 (See Note 1) input as represented by the investment firm.

NOTE 6: PROPERTY AND EQUIPMENT

Activity in the asset account for property and equipment was as follows for the period June 30, 2014.

	<u>Total Assets</u>	<u>Depreciation</u>
Beginning balance June 30, 2013	\$ 23,583	\$ (23,583)
2014 adjustment	-	-
2014 additions	6,355	(318)
Balance June 30, 2014	<u>\$ 29,938</u>	<u>\$ (23,901)</u>

NOTE 7: MORTGAGES RECEIVABLE (FIRST MORTGAGES)

When Habitat transfers ownership of a home to a family partner, mortgages are created and secured by the home and land. The first mortgage is a note for the cost of building the home with principal payments due monthly. The term of the first mortgage varies depending on the amount of the mortgage and the partner family's ability to pay. These first mortgages are interest free and currently have terms ranging from 8 to 50 years with the longest mortgage maturing in 2054. Monthly payments range from \$120 to \$549.

Habitat for Humanity of Missoula, Inc.

Notes to the Financial Statements
June 30, 2014

NOTE 7: MORTGAGES RECEIVABLE (FIRST MORTGAGES), continued

The first mortgages are valued in the financial statements at fair value. Fair value is reached annually by discounting the face amount of a mortgage using the rate established by Habitat International at the time of mortgage origination (level 2 input). Discount rates are established each year for sales in that year.

The discount is amortized over the life of each mortgage individually. The following table summarizes the activity in the mortgage accounts for the period ended June 30, 2014.

	Due 1 Year	Due 2-50 Years	Discount	Fair Value
Beginning balance June 30, 2013	\$ 89,031	\$ 1,656,964	\$ (1,032,075)	\$ 713,920
2014 payments received	-	(88,429)	-	(88,429)
2014 discount amortized	-	-	50,300	50,300
Adjust for current portion	(2,814)	2,814	-	-
Balance June 30, 2014	<u>\$ 86,217</u>	<u>\$ 1,571,349</u>	<u>\$ (981,775)</u>	<u>\$ 675,791</u>

NOTE 8: OTHER MORTGAGES

To provide assistance to families in keeping monthly payments within a required percentage of income, Habitat often also takes second and third mortgages on a family property at the time of closing. Some second mortgages are forgiven over time, typically ten years beginning with the sixth year after purchase. Some second mortgages and most third mortgages are not forgiven until the 30th year or last year of the first mortgage, as applicable, and come due for payment of the full amount if a home is sold prior to forgiveness. As part of the Home Start program, fourth mortgages were given which are forgiven over a five year period.

None of these supplemental mortgages are reported in the financial statements because collection is uncertain and no estimate is available of future payments. However, internal records show the value of all supplemental mortgages less amortization, calculated by individual mortgage, was \$932,895 at June 30, 2014.

NOTE 9: PREPAID MORTGAGE LIABILITY

Families are required to make a down payment of \$500 prior to beginning construction of their home. These payments are recorded as prepaid mortgages and are credited against the first mortgages at the home closing. At June 30, 2014, the pre-paid mortgage balance was \$1,500.

NOTE 10: HOMES FOR RESALE

The balance in homes for resale represents one house which Habitat repossessed in fiscal year 2013. Each home is valued at the remaining mortgage value, without discounting, plus the costs of repossession and remodeling to date.

NOTE 11: DEFERRED REVENUE

Administrative Income – At the closing of each home, Habitat charges a \$2,000 administrative fee, which is included in the mortgage amount. This is recorded as unearned deferred revenue. The administrative fee is amortized and recognized over the life of the mortgage if Habitat holds the mortgage and immediately if the mortgage is sold. Activity for 2014 is shown on the next page.

Habitat for Humanity of Missoula, Inc.

Notes to the Financial Statements
June 30, 2014

NOTE 11: DEFERRED REVENUE, continued

Unearned Administrative Income June 30, 2013	\$ 34,415
Plus unearned income from one home closed	2,000
Amortization of administrative income	<u>(2,630)</u>
Unearned Administrative Income June 30, 2014	<u>\$ 33,785</u>

NOTE 12: LONG TERM NOTES PAYABLE

As part of acquiring one repossessed home during fiscal 2013, Habitat assumed the balance of the external loan on the home. The balance at June 30, 2014 was \$81,912.

NOTE 13: RESTRICTED NET POSITION-ENDOWMENT FUND

During the year ended June 20, 2010, Habitat for Humanity of Missoula established an endowment fund which had accumulated \$26,088 by June 30, 2014. The endowment was established by the board of Habitat and contributions are solicited from donors. Contributions to the endowment fund are permanently restricted. Earnings in the endowment investment will add to the endowment until a pre-determined corpus is reached. After the corpus is established, earnings on the corpus will be available for use.

NOTE 14: OPERATING LEASES

Habitat had three operating leases during the year ended June 30, 2014. Office space was leased on a monthly basis for \$750, and storage space was leased for monthly rent of \$110. In January 2014 a deposit was placed on a space for a Habitat Re-Store and new Habitat office; monthly rent is \$360/month beginning February 2014.

NOTE 15: RELATED PARTY TRANSACTIONS

Habitat interacts with Habitat International in various financial transactions. Habitat tithes a portion of certain general cash contributions to Habitat International for use in global operations. Currently these funds are used to construct homes in economically depressed areas of Habitat International's overseas projects. For the year ended June 30, 2014, Habitat tithing expenses were \$4,969. At June 30, 2014, the accrued tithing balance owing to Habitat International was \$0.

NOTE 16: CASH FLOW STATEMENT NOTES

Effects of Mortgages on Cash Flow – Habitat mortgages to partner families are created to recover the cost of constructing partner homes. No actual cash is given or received at the time of occupancy; however in compliance with accounting principles generally accepted in the United States of America, a "Mortgages Issued" cash outflow appears in the financing section and a matching cash inflow is part of "New Partner Home Sales" in the operating section. For fiscal 2014, Habitat sold the mortgage for the one home completed to the Montana Board of Housing so there is only cash inflow.

NOTE 17: COST ALLOCATION

Habitat allocates costs that can be identified specifically with a particular final cost objective directly to either program or support services. Joint costs are allocated based on a survey of the Executive Director's use of time between program, fund raising and management.

Habitat for Humanity of Missoula, Inc.

Notes to the Financial Statements
June 30, 2014

NOTE 18: RISK MANAGEMENT

Habitat is exposed to a number of risks including loss related to theft, damage to and destruction of property as well as other general liabilities. Habitat transfers its risks through the purchase of commercial insurance.

NOTE 19: CREDIT RISK

Most of Habitat's investment portfolio is in mortgages with partner families. Monthly income from mortgages represented approximately 26% of cash requirements for operating activities for the year ending June 30, 2014. The effect of losing a large part of this source or revenue should a majority of families be unable to make mortgage payments for an extended period of time is unknown. Habitat has some flexibility to curtail building activity from its highest level of building three homes per year; in addition, Habitat's debt is minimal which allows operational flexibility.

NOTE 20: CHANGES TO HOMES FOR SALE

For the period ended June 30, 2014 the activity in homes for re-sale was as follows:

	Balance June 30, 2013	Additional Expense	Balance June 30, 2014
4210 Deveraux Place (current deed-in-lieu)	\$ 92,049	\$ 3,100	\$ 95,149