



**Consolidated Financial Statements,
Independent Auditors' Report,
and
Accompanying Information
December 31, 2014 and 2013**

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HABITAT FOR HUMANITY OF METRO DENVER, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.
Denver, Colorado

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Metro Denver, Inc. ("Habitat") (a Colorado non-profit corporation), which are comprised of the consolidated statements of financial position as of December 31, 2014 and 2013, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, 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. 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 entity'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 entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.
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We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Metro Denver, Inc. as of December 31, 2014 and 2013, and the changes in their net assets and their cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

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April 22, 2015
Denver, Colorado

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Financial Position

	December 31,	
	2014	2013
Assets		
Assets		
Cash and cash equivalents	\$ 3,134,720	\$ 1,918,213
Investments held by The Denver Foundation (Notes 2 and 3)	2,362,228	2,253,256
Escrow deposits held in trust	162,489	135,532
Grants receivable	-	398,926
Construction in progress (Note 4)	4,342,455	5,845,725
Other assets	669,431	755,443
Mortgage notes receivable, net (Note 5)	16,048,493	14,352,718
Investment in HFHI-SA Leverage IX, LLC (Note 11)	3,883,876	3,818,961
Investment in CCML Leverage Lender I, LLC (Note 12)	1,514,731	1,490,039
Property and equipment, net (Note 6)	3,099,420	3,238,570
Deferred loan costs	<u>243,622</u>	<u>286,027</u>
Total assets	<u>\$ 35,461,465</u>	<u>\$ 34,493,410</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 115,591	\$ 256,986
Other accrued expenses	492,265	252,067
Homeowner deposits	8,224	12,163
Deferred rent	137,160	102,189
Escrow deposits held in trust	162,489	135,532
Mortgage note payable (Note 8)	1,370,543	1,428,064
Notes payable (Note 9)	1,265,569	474,000
Notes payable HFHI (Note 10)	192,671	126,819
Note payable HFHI-SA NMTC VI, LLC (Note 11)	4,858,200	4,858,200
Note payable CCM Community Development XVII, LLC (Note 12)	1,880,000	1,880,000
Forgivable notes payable (Note 13)	<u>5,062,350</u>	<u>5,199,850</u>
Total liabilities	<u>15,545,062</u>	<u>14,725,870</u>
Commitments and contingencies (Notes 7, 15, 17, and 18)		
Net assets (Note 14)		
Unrestricted		
Board-designated for land and infrastructure	2,000,000	1,500,000
Undesignated	<u>17,201,694</u>	<u>17,478,232</u>
Total unrestricted	19,201,694	18,978,232
Temporarily restricted	<u>714,709</u>	<u>789,308</u>
Total net assets	<u>19,916,403</u>	<u>19,767,540</u>
Total liabilities and net assets	<u>\$ 35,461,465</u>	<u>\$ 34,493,410</u>

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Activities

	For the Years Ended					
	December 31, 2014			December 31, 2013		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support						
Contributions and grants	\$ 3,743,215	\$ 614,709	\$ 4,357,924	\$ 4,897,278	\$ 449,053	\$ 5,346,331
Donated goods and services	1,554,846	-	1,554,846	1,609,089	-	1,609,089
Home sales	2,940,445	-	2,940,445	2,336,722	-	2,336,722
Mortgage interest income	720,241	-	720,241	731,435	-	731,435
Discount earned on the sale of receivables	708,475	-	708,475	1,145,689	-	1,145,689
Sales from ReStores, net of cost of purchased inventory of \$275,779 (2014) and \$217,061 (2013)	3,932,166	-	3,932,166	3,274,725	-	3,274,725
Other income	77,079	-	77,079	109,087	-	109,087
Net assets released from restrictions due to satisfaction of expenditure requirements	<u>689,308</u>	<u>(689,308)</u>	<u>-</u>	<u>854,536</u>	<u>(854,536)</u>	<u>-</u>
Total revenues, gains, and support	<u>14,365,775</u>	<u>(74,599)</u>	<u>14,291,176</u>	<u>14,958,561</u>	<u>(405,483)</u>	<u>14,553,078</u>
Expenses						
Program services						
Home construction	9,199,887	-	9,199,887	9,389,855	-	9,389,855
Family services	481,976	-	481,976	413,798	-	413,798
ReStores	<u>2,977,652</u>	<u>-</u>	<u>2,977,652</u>	<u>2,517,193</u>	<u>-</u>	<u>2,517,193</u>
Total program services	<u>12,659,515</u>	<u>-</u>	<u>12,659,515</u>	<u>12,320,846</u>	<u>-</u>	<u>12,320,846</u>
Supporting services						
Management and general	774,030	-	774,030	794,968	-	794,968
Fundraising activities	<u>990,837</u>	<u>-</u>	<u>990,837</u>	<u>1,329,449</u>	<u>-</u>	<u>1,329,449</u>
Total supporting services	<u>1,764,867</u>	<u>-</u>	<u>1,764,867</u>	<u>2,124,417</u>	<u>-</u>	<u>2,124,417</u>
Total expenses	<u>14,424,382</u>	<u>-</u>	<u>14,424,382</u>	<u>14,445,263</u>	<u>-</u>	<u>14,445,263</u>
Change in net assets before other income	(58,607)	(74,599)	(133,206)	513,298	(405,483)	107,815
Gain (loss) on sale of asset	3,472	-	3,472	(244,822)	-	(244,822)
Investment income	<u>278,597</u>	<u>-</u>	<u>278,597</u>	<u>414,697</u>	<u>-</u>	<u>414,697</u>
Change in net assets	223,462	(74,599)	148,863	683,173	(405,483)	277,690
Net assets at beginning of year	<u>18,978,232</u>	<u>789,308</u>	<u>19,767,540</u>	<u>18,295,059</u>	<u>1,194,791</u>	<u>19,489,850</u>
Net assets at end of year	<u>\$ 19,201,694</u>	<u>\$ 714,709</u>	<u>\$ 19,916,403</u>	<u>\$ 18,978,232</u>	<u>\$ 789,308</u>	<u>\$ 19,767,540</u>

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

**Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2014**

	Program Services			Total Program Services	Supporting Services			Total Functional Expenses
	Home Construction	Family Services	ReStores		Management and General	Fundraising Activities	Total Supporting Services	
Expenses								
Cost of homes sold	\$ 6,080,664	\$ -	\$ -	\$ 6,080,664	\$ -	\$ -	\$ -	\$ 6,080,664
Salaries and wages	1,077,937	252,617	1,419,521	2,750,075	231,931	556,138	788,069	3,538,144
Volunteer labor on homes	839,175	-	-	839,175	-	-	-	839,175
Occupancy	24,197	13,714	569,365	607,276	21,545	13,301	34,846	642,122
Payroll taxes and benefits	189,536	38,007	301,026	528,569	65,204	84,546	149,750	678,319
Habitat for Humanity								
International tithe	192,152	-	-	192,152	-	-	-	192,152
Depreciation and amortization	104,722	28,808	22,973	156,503	44,579	27,906	72,485	228,988
Professional fees	43,927	52,954	24,779	121,660	226,661	17,402	244,063	365,723
Bank and investment fees	2	5	63,252	63,259	35,052	9,126	44,178	107,437
Insurance	123,554	6,825	128,498	258,877	20,435	17,373	37,808	296,685
Other construction costs	131,246	38,982	-	170,228	3,214	-	3,214	173,442
Marketing and communications	-	945	146,217	147,162	-	170,352	170,352	317,514
Office supplies	17,325	5,551	81,735	104,611	19,066	17,563	36,629	141,240
Vehicle expense	42,385	-	121,604	163,989	-	-	-	163,989
Interest expense	72,435	13,529	-	85,964	23,805	13,033	36,838	122,802
Volunteer expense	134,691	11,833	7,726	154,250	603	32,047	32,650	186,900
Telephone	12,848	3,763	23,388	39,999	9,981	4,296	14,277	54,276
Printing and postage	9,161	4,614	9,526	23,301	8,080	7,356	15,436	38,737
Miscellaneous	114	4,096	-	4,210	1,739	90	1,829	6,039
Administrative fees	59,857	-	467	60,324	40,866	-	40,866	101,190
Equipment purchase and repair expense	30,394	-	32,586	62,980	6	-	6	62,986
Staff development	7,780	5,296	11,330	24,406	13,810	12,564	26,374	50,780
Travel and transportation	5,785	437	13,659	19,881	7,453	7,744	15,197	35,078
Total expenses	\$ 9,199,887	\$ 481,976	\$ 2,977,652	\$ 12,659,515	\$ 774,030	\$ 990,837	\$ 1,764,867	\$ 14,424,382

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

**Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2013**

	Program Services			Total Program Services	Supporting Services			Total Functional Expenses
	Home Construction	Family Services	ReStores		Management and General	Fundraising Activities	Total Supporting Services	
Expenses								
Cost of homes sold	\$ 6,298,752	\$ -	\$ -	\$ 6,298,752	\$ -	\$ -	\$ -	\$ 6,298,752
Salaries and wages	1,165,084	250,473	1,207,367	2,622,924	215,312	548,910	764,222	3,387,146
Volunteer labor on homes	578,122	-	-	578,122	-	-	-	578,122
Occupancy	26,582	12,869	520,982	560,433	19,504	12,301	31,805	592,238
Payroll taxes and benefits	202,410	36,122	220,113	458,645	52,341	84,381	136,722	595,367
Habitat for Humanity								
International tith	165,529	-	-	165,529	-	-	-	165,529
Depreciation and amortization	78,663	13,857	38,874	131,394	110,386	13,429	123,815	255,209
Professional fees	17,267	6,543	25,611	49,421	222,386	4,904	227,290	276,711
Bank and investment fees	-	-	59,597	59,597	36,685	12,492	49,177	108,774
Insurance	129,543	11,078	91,879	232,500	20,070	19,716	39,786	272,286
Other construction costs	109,062	42,332	-	151,394	3,389	-	3,389	154,783
Marketing and communications	240,422	666	94,657	335,745	1,498	552,598	554,096	889,841
Office supplies	11,626	6,590	53,241	71,457	17,230	13,182	30,412	101,869
Vehicle expense	41,966	-	84,743	126,709	-	-	-	126,709
Interest expense	71,600	13,990	1,623	87,213	21,444	13,551	34,995	122,208
Volunteer expense	135,305	8,736	15,602	159,643	50	33,219	33,269	192,912
Telephone	13,893	2,835	39,477	56,205	4,172	3,458	7,630	63,835
Printing and postage	7,251	6,305	9,308	22,864	7,013	8,440	15,453	38,317
Miscellaneous	238	-	1,804	2,042	2,310	70	2,380	4,422
Administrative fees	36,883	-	340	37,223	41,057	4,254	45,311	82,534
Equipment purchase and repair expense	31,740	-	16,313	48,053	-	-	-	48,053
Staff development	10,811	447	7,650	18,908	9,626	1,655	11,281	30,189
Travel and transportation	17,106	955	28,012	46,073	10,495	2,889	13,384	59,457
Total expenses	\$ 9,389,855	\$ 413,798	\$ 2,517,193	\$ 12,320,846	\$ 794,968	\$ 1,329,449	\$ 2,124,417	\$ 14,445,263

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Cash Flows

	For the Years Ended	
	December 31,	
	<u>2014</u>	<u>2013</u>
Cash flows from operating activities		
Change in net assets	\$ 148,863	\$ 277,690
Adjustments to reconcile change in net assets to net cash used in operating activities		
Mortgages made to homeowners	(2,940,445)	(2,336,722)
Discount earned on sale of mortgage receivables	(708,475)	(1,145,689)
Amortization of mortgage loan discounts	(720,241)	(731,435)
Depreciation and amortization expense	186,583	212,803
Amortization of New Market Tax Credit loan costs	42,405	42,406
Loss on sale of assets	34,689	244,822
Deferred rent	34,971	25,834
Net realized and unrealized gain on investments	(137,783)	(273,883)
Income from equity method investments	(140,814)	(140,814)
Forgiveness of debt	(137,500)	(302,500)
Changes in assets and liabilities		
Grants receivable	398,926	(198,853)
Construction in progress	1,503,270	358,583
Other assets	86,012	(384,074)
Distributions received from New Market Tax Credit investments	51,207	51,206
Accounts payable	(141,395)	31,053
Other accrued expenses	240,198	75,684
Homeowner deposits	(3,939)	1,250
	<u>(2,352,331)</u>	<u>(4,470,329)</u>
Net cash used in operating activities	<u>(2,203,468)</u>	<u>(4,192,639)</u>
Cash flows from investing activities		
Mortgage principal payments received	1,640,919	1,328,103
Proceeds from sale of mortgages	1,032,467	1,991,754
Distributions for fees paid to The Denver Foundation	28,811	28,780
Payments for purchases of equipment	(85,594)	(15,032)
Proceeds from sale of equipment and land	3,472	103,196
Net cash provided by investing activities	<u>2,620,075</u>	<u>3,436,801</u>
Cash flows from financing activities		
Repayments of mortgage note payable	(57,521)	(55,145)
Repayments of notes payable	(240,898)	(237,000)
Repayments of notes payable HFHI	(51,084)	(47,622)
Proceeds from notes payable	1,032,467	-
Proceeds from notes payable HFHI	116,936	-
Proceeds from forgivable notes payable	-	1,619,896
Net cash provided by financing activities	<u>799,900</u>	<u>1,280,129</u>
Net increase in cash and cash equivalents	1,216,507	524,291
Cash and cash equivalents at beginning of year	<u>1,918,213</u>	<u>1,393,922</u>
Cash and cash equivalents at end of year	<u>\$ 3,134,720</u>	<u>\$ 1,918,213</u>

(Continued on the following page)

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Cash Flows

(Continued from the previous page)

Supplemental disclosure of cash flow information:

Interest paid was \$63,050 and \$62,647 for the years ended December 31, 2014 and 2013, respectively.

Supplemental disclosure of non-cash activity:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Issuance of non-interest-bearing mortgage loans	\$ 5,472,270	\$ 5,445,300
Discount on non-interest-bearing mortgage loans	<u>(2,531,825)</u>	<u>(3,108,578)</u>
Transfers to homeowners subject to non-interest-bearing mortgage loans	<u>\$ 2,940,445</u>	<u>\$ 2,336,722</u>

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Habitat for Humanity of Metro Denver, Inc. ("Habitat") is a non-profit corporation formed on April 20, 1979 to raise funds to build, rehabilitate, and repair affordable housing for low-income individuals who presently live in inadequate housing or cannot purchase housing through conventional sources. To qualify for housing, applicants must demonstrate need for housing, ability to pay for the services, and willingness to partner with Habitat for Humanity. All Habitat partner families complete sweat equity, attend homeowner education classes, and pay for their home or repairs. Financing for individuals purchasing homes is provided by Habitat utilizing zero interest rate financing and monthly payments meet HUD's affordability standards.

Habitat operates four Home Improvement Outlets (the "ReStores") to provide the community with a source of low-cost materials for home improvement, to reduce the volume of materials going to landfills, and to generate funds for Habitat. Many Habitat homeowners volunteer at the ReStores to earn sweat equity hours and work experience.

Habitat is an affiliate of Habitat for Humanity International ("Habitat International" or "HFHI").

Habitat Community Housing Development, Inc. ("HCHD") is a separately incorporated non-profit corporation, formed for the purpose of obtaining certain federal funds set aside for community housing development organizations that will be used by Habitat for the construction of affordable homes for low-income families. Habitat is the sole member of HCHD.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Habitat and HCHD, collectively referred to as "Habitat." All significant interorganization balances and transactions have been eliminated.

Basis of Presentation

The accompanying consolidated financial statements of Habitat have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Unrestricted amounts are those currently available at the discretion of the Board of Directors ("Board") for use in Habitat's operations. Unrestricted amounts also include monies designated by the Board for a reserve fund for future land purchases and infrastructure development.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Permanently restricted amounts are assets that must be maintained permanently by Habitat as required by the donor, but Habitat is permitted to use or expend part or all of any income derived from those assets. Habitat does not currently maintain any permanently restricted net assets.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, Habitat considers all unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments held by The Denver Foundation (the "Foundation") are stated at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the consolidated statements of activities.

In accordance with generally accepted accounting principles, non-controlling interests in HFHI-SA Leverage IX, LLC (Note 11) and CCML Leverage Lender I, LLC (Note 12) are accounted for under the equity method of accounting.

Habitat evaluates these investments annually for other-than-temporary declines in value. At December 31, 2014 and 2013, no such declines existed on these investments.

Concentrations of Credit Risk

Financial instruments, which potentially subject Habitat to concentrations of credit risk, consist of cash accounts that may, during the year, exceed the federally insured limit set by the FDIC, investments held by the Foundation, and mortgage notes receivable. Interest-bearing and non-interest-bearing accounts are guaranteed by the FDIC up to \$250,000. At December 31, 2014 and 2013, Habitat had deposits in excess of federally insured limits of approximately \$2,540,000 and \$827,000, respectively. Habitat reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

Habitat finances the construction and ownership of homes to low-income individuals in the Denver Metro area. The mortgages are secured by a deed of trust. Habitat has established procedures to limit the risk of default by limiting the sales prices of the homes and not charging interest, thereby designing the monthly mortgage payments of the owners to be manageable. Habitat homes are appraised for value prior to sale; the original sales prices may be set below the appraisal value. However, the values of homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of management.

Credit risk with respect to contributions receivable is limited due to the number and creditworthiness of the corporations, foundations, churches, and individuals that comprise the contributor base.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Escrow Deposits Held in Trust

Habitat services the mortgages on the homes it sells. Certain mortgages are subsequently sold to third parties, one of which services the loans it holds, and the other group of loans continue to be serviced by Habitat. Escrow deposits held in trust include amounts received for insurance, property taxes, and other fees on such loans that Habitat services.

Property and Equipment

Property and equipment is recorded at cost or, if donated, at fair value at the date of donation. Habitat capitalizes all property and equipment with a cost or donated value in excess of \$5,000 and with an estimated useful life of three years or more. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 30 years.

Deferred Loan Costs

During 2012 and 2011, Habitat capitalized the costs associated with obtaining the New Market Tax Credit ("NMTC") loans. These deferred loan costs are being amortized over the life of the related notes payable using a method approximating the effective interest method. Amortization of deferred loan costs is included in amortization expense in the accompanying consolidated statements of functional expenses. Amortization expense for the years ended December 31, 2014 and 2013 was \$42,405 and \$42,406, respectively.

Deferred Rent

Habitat recognizes rent expense on a straight-line basis over the term of the lease. Deferred rent reflects the accumulated difference between actual rent payments and expense recognized.

Donated Services and Goods

Donated services are recognized as contributions at estimated fair value on the date of receipt if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat.

In 2014, Habitat estimated the cost of volunteer labor to be approximately \$23,200 for a single-family home, \$30,700 for a duplex unit, and between \$25,800 and \$32,800 for a townhome. In 2013, Habitat estimated the cost of volunteer labor to be approximately \$22,600 for a single-family home, \$29,900 for a duplex unit, and \$19,600 for a townhome. These volunteer costs are recognized as contribution revenue and cost of homes sold in the consolidated statements of activities when the home is sold.

Approximately \$10,700 and \$9,000 was recorded for donated materials and electrical services on each Habitat home during 2014 and 2013, respectively.

Donated property utilized in the operations of Habitat is recorded at the estimated fair value at the date of the donation.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Donated Services and Goods (continued)

Consistent with the Habitat International *Affiliate Operations Manual*, goods donated to the ReStores are reflected as revenue at the time of sale when there is an objective, measurable basis for determining fair value. This accounting reflects the nature of many donations received by the ReStores wherein significant uncertainties exist about the realizability of the values; thus, fair value is not determinable within reasonable limits until the time of sale.

Contributions

Habitat records contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated based upon estimated usage, square footage, or periodic time and expense studies, as is appropriate to the particular cost being allocated.

Income Taxes

Habitat and HCHD are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and both organizations qualify for the charitable contribution deduction. However, income from activities not directly related to their tax-exempt purposes is subject to taxation as unrelated business income. There were no unrelated business income taxes in 2014 and 2013.

Habitat applies a more-likely-than-not measurement methodology to reflect the consolidated financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2014 or 2013.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as other operating expense. No interest or penalties have been assessed as of December 31, 2014 or 2013.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of consolidated financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Subsequent Events

Habitat has evaluated all subsequent events through the auditors' report date, which is the date the consolidated financial statements were available for issuance, and determined there were no material subsequent events that required recognition or additional disclosure in these consolidated financial statements.

Note 2 - Investments Held by The Denver Foundation

Invested funds at the Foundation are pooled with other funds in a diversified portfolio maintained by the Foundation in order to realize the benefits of common administration, but Habitat retains all legal and equitable ownership rights.

The investment return on Habitat's pro rata share of the pooled investments held by the Foundation is summarized as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Ordinary income	\$ 16,950	\$ 5,120
Realized gains	43,512	31,788
Unrealized gains	<u>77,321</u>	<u>236,975</u>
Total unrestricted investment income	<u>\$ 137,783</u>	<u>\$ 273,883</u>

Note 3 - Fair Value Measurement

Habitat values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the following fair value hierarchy prioritizes inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 3 - Fair Value Measurement (continued)

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, or 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The carrying amounts of financial assets required to be measured at fair value on a recurring basis include investments held by the Foundation, the fair value of which is based upon information determined and reported by the Foundation and corroborated with the Foundation's audited consolidated financial statements by management. Habitat's pro rata share of the pooled investments does not have an active market and is, therefore, classified under Level 3 in the fair value hierarchy.

Below is a reconciliation of the beginning and ending balance of assets held by the Foundation measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Beginning balance	\$ 2,253,256	\$ 2,008,153
Total realized and unrealized gains	137,783	273,883
Distributions for fees paid to the Foundation	<u>(28,811)</u>	<u>(28,780)</u>
Ending balance	<u>\$ 2,362,228</u>	<u>\$ 2,253,256</u>

Note 4 - Construction in Progress

Construction in progress consists of undeveloped land and infrastructure costs, as well as partially completed single-family and multi-family dwellings. At December 31, 2014 and 2013, 59 and 51 units were under development beyond the land purchase phase, respectively.

Habitat's construction in progress is comprised of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Completed homes ready for sale	\$ 423,164	\$ 677,228
Construction in progress	2,384,196	3,117,244
Land under development	728,133	1,203,874
Land acquired for development	<u>806,962</u>	<u>847,379</u>
	<u>\$ 4,342,455</u>	<u>\$ 5,845,725</u>

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 5 - Mortgage Notes Receivable

Mortgage notes receivable consist of non-interest-bearing notes received from homebuyers in connection with the sale of homes constructed by Habitat. The notes are discounted to their present values using the market rate of interest at the closing date; the discount rate varies from 3.2% to 8.8%. The discount is amortized over the lives of the mortgages using the interest method.

Mortgage notes receivable are as follows:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Face value of outstanding mortgages receivable	\$ 26,146,143	\$ 23,639,770
Less discount	<u>(10,097,650)</u>	<u>(9,287,052)</u>
	<u>\$ 16,048,493</u>	<u>\$ 14,352,718</u>

Approximately \$1,336,000 will be due in 2015 on the above notes.

All mortgage notes receivable are collateralized by the respective homes sold. A committee of the Board meets together with management on a regular basis to review delinquent loans and to consider if any foreclosure proceedings should be initiated. Receivable balances are considered to be delinquent based on contractual terms. The need for an allowance is based on past collection experience and on analysis of current mortgage receivable collectibility. Management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan outstanding; therefore, no allowance for uncollectible mortgages is recorded.

Loans Sold to CHFA

During 2013, Habitat transferred its interest in certain mortgages receivable to the Colorado Housing and Finance Authority ("CHFA") in replacement of non-performing mortgages. The transactions were recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the transfer of \$0 and \$85,866 during 2014 and 2013, respectively, arising from the substitution of mortgages. Non-performing mortgages were retained by Habitat, and the unamortized discount on these mortgages was restored and netted with mortgage interest income in the accompanying consolidated statements of activities.

The sales agreement with CHFA requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within sixty days, Habitat is required to substitute one or more other mortgage loans, which have an aggregate principal balance at least equal to but not more than 125% of the outstanding balance of the mortgage loan being replaced. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At December 31, 2014, the outstanding principal balance of loans held by CHFA that are guaranteed by Habitat was \$8,931,369.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 5 - Mortgage Notes Receivable (continued)

Loans Sold to Banks

During 2014 Habitat sold its interest in certain mortgages receivable to a bank (the "Bank"), receiving \$1,114,458 in cash proceeds related to the sale. The transaction was recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the loan of \$517,938 during 2014 arising from the unamortized discount on the mortgage notes interest sold. Habitat continues to service these loans on the Bank's behalf.

The loan agreement with the Bank requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within ninety days, Habitat is required to perform one of the following within forty-five days of the Bank's notice: repurchase the loan; substitute with a performing loan of equitable terms, balance, and property; or substitute the mortgagor. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At December 31, 2014, the outstanding principal balance of loans held by the Bank that are guaranteed and serviced by Habitat was \$1,384,470.

During 2013, Habitat sold its interest in certain mortgages receivable to a the same Bank, receiving \$1,991,754 in cash proceeds related to the sale. The transaction was recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the sale of \$840,428 during 2013 arising from the unamortized discount on the mortgage notes sold. Habitat continues to service these loans on the Bank's behalf.

The sales agreement with the Bank requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within thirty days, Habitat is required to perform one of the following within forty-five days of the Bank's notice: repurchase the loan; substitute with a performing loan of equitable terms, balance, and property; or substitute the mortgagor. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At December 31, 2014, the outstanding principal balance of loans held by the Bank that are guaranteed and serviced by Habitat was \$2,403,028.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 6 - Property and Equipment

Habitat's property and equipment is comprised of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Buildings	\$ 3,911,011	\$ 3,911,011
Vehicles	181,687	233,385
Furniture and fixtures	115,243	116,935
Volunteer housing	-	93,895
Leasehold improvements	82,528	80,714
Office equipment	33,430	31,350
Construction equipment	12,847	15,895
Warehouse equipment	<u>12,470</u>	<u>12,470</u>
	4,349,216	4,495,655
Less accumulated depreciation	<u>(1,249,796)</u>	<u>(1,257,085)</u>
	<u>\$ 3,099,420</u>	<u>\$ 3,238,570</u>

During the year ended December 31, 2014, Habitat converted their volunteer housing into a Habitat home. At the time of the conversion the volunteer housing had a net book value of \$38,161, which was recognized as a cost of homes sold when the housing was sold during the year ended December 31, 2014.

Note 7 - Line-of-Credit

Habitat has a \$1,000,000 line-of-credit agreement with a bank, due May 20, 2015. The line-of-credit agreement requires monthly interest payments at the bank's prime rate less 1% with a floor of 3% (the interest rate at December 31, 2014 was 3%). Amounts outstanding are collateralized by certain mortgage notes receivable. At December 31, 2014 and 2013, there were no amounts outstanding under this agreement.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 8 - Mortgage Note Payable

Habitat's mortgage note payable consists of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Mortgage note due in equal monthly payments of principal and interest of \$10,510 with remaining principal due in a balloon payment on June 30, 2020. The note is payable over ten years, at a fixed rate of 4.8%, with payments amortized over a 20-year basis. The note is secured by a first deed of trust on the Eliot Street and Rio Grande Boulevard real properties, as well as all rents on such property.	<u>\$ 1,370,543</u>	<u>\$ 1,428,064</u>

Habitat was in compliance with the debt service coverage ratio as required by the note agreement as of December 31, 2014.

Maturities of mortgage note payable obligations are as follows:

For the Year Ending December 31,

2015	\$ 61,302
2016	64,691
2017	67,865
2018	71,195
2019	74,689
Thereafter	<u>1,030,801</u>
	<u>\$ 1,370,543</u>

Note 9 - Notes Payable

Notes payable consist of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Note due in equal annual payments of principal only of \$237,000 through 2015. The note was originally issued in 2011 and is payable over four years and bears no interest. The note was secured by a first deed of trust on the property purchased. The deed was partially released upon the sale of each of the existing eleven individual units to a qualifying homeowner. Management believes the effect of imputing interest on this note payable to be insignificant.	\$ 237,000	\$ 474,000

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 9 - Notes Payable (continued)

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Note payable to a bank bearing 0% interest, payable in equal monthly payments \$3,898, through September 1, 2031, followed by declining payments ranging from \$3,611 to \$480, and maturing March 31, 2042. The note is secured by deeds of trust related to the underlying mortgage loans pledged by Habitat.	<u>1,028,569</u>	<u>-</u>
	<u>\$ 1,265,569</u>	<u>\$ 474,000</u>

Maturities of notes payable obligations are as follows:

For the Year Ending December 31,

2015	\$ 283,776
2016	46,776
2017	46,776
2018	46,776
2019	46,776
Thereafter	<u>794,689</u>
	<u>\$ 1,265,569</u>

Note 10 - Notes Payable to HFHI

Notes payable to HFHI consist of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Unsecured, non-interest-bearing notes payable to Habitat International, payable in monthly installments ranging from \$78 to \$1,328, maturing between December 2015 and December 2020.	<u>\$ 192,671</u>	<u>\$ 126,819</u>

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 10 - Notes Payable to HFHI (continued)

Principal payments required under the above agreements are as follows:

For the Year Ending December 31,

2015	\$	51,218
2016		28,968
2017		37,405
2018		29,208
2019		29,208
Thereafter		<u>16,664</u>
	\$	<u>192,671</u>

Note 11 - Investment in HFHI-SA Leverage IX, LLC

During 2011, Habitat entered into a NMTC program. The program provides funds to eligible organizations for investments in a qualified low-income community investment. As a participant in this program, Habitat invested in HFHI-SA Leverage IX, LLC ("HFHI-SA") with other affiliates of HFHI and also entered into a promissory note with HFHI-SA VI, LLC, a qualified community development entity ("CDE"). Habitat has invested in a 17.78% ownership of HFHI-SA, which was initially recorded at its cost of \$3,687,447, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. HFHI-SA invested these funds in an investment fund, which in turn made an investment in the CDE. During the years ended December 31, 2014 and 2013, Habitat increased its investment balance by \$101,617 and \$101,618, respectively, for Habitat's portion of HFHI-SA's earnings offset by \$36,702 and \$36,702, respectively, for distributions received from HFHI-SA. The following is unaudited summarized financial information as to assets, liabilities, and results of operations of HFHI-SA as of and for the years ended December 31, 2014 and 2013:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Total assets	\$ 21,850,438	\$ 21,476,549
Total liabilities	\$ -	\$ -
Total revenue	\$ 571,691	\$ 559,570
Net income	\$ 571,691	\$ 559,570

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately \$649,000, net of transaction expenses, which can be utilized to build homes, infrastructure, or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of December 31, 2014, Habitat is in compliance with these conditions.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 11 - Investment in HFHI-SA Leverage IX, LLC (continued)

Habitat has a promissory note due to the CDE of \$4,858,200. This note requires interest-only payments until July 2019 at 0.76%. The loan matures in July 2027 and is secured by certain depository and reserve bank accounts. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of HFHI-SA, which is repaid to the investment fund. The interest is then returned to HFHI-SA and, ultimately, 99.98% of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of HFHI-SA. In July 2019, the investment fund may exercise a put option resulting in HFHI-SA holding the debt, therefore releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the tangible net worth ratio as required by the note agreement as of December 31, 2014.

Note 12 - Investment in CCML Leverage Lender I, LLC

During 2012, Habitat participated in a second NMTC program. As a participant in this program, Habitat invested in CCML Leverage Lender I, LLC ("CCML") with other affiliates of HFHI and also entered into a promissory note with CCM Community Development XVII LLC, a qualified CDE. Habitat has invested in a 20.00% ownership of CCML, which was initially recorded at its cost of \$1,450,464, and records its share of income or loss as an adjustment to the investment balance and investment income or loss. CCML invested these funds in an investment fund, which in turn made an investment in the CDE. During the years ended December 31, 2014 and 2013, Habitat increased its investment balance by \$39,197 and \$39,196, respectively, for Habitat's portion of CCML's earnings offset by \$14,506 and \$14,504, respectively, for distributions received from CCML. The following is unaudited summarized financial information as to assets, liabilities, and results of operations of CCML as of and for the years ended December 31, 2014 and 2013:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Total assets	\$ 15,138,968	\$ 14,893,576
Total liabilities	\$ -	\$ -
Total revenue	\$ 391,754	\$ 384,187
Net income	\$ 391,754	\$ 384,187

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately \$300,000, net of transaction expenses, which can be utilized to build homes, infrastructure, or acquire land. Habitat is required to maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of December 31, 2014, Habitat is in compliance with these conditions.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 12 - Investment in CCML Leverage Lender I, LLC (continued)

Habitat has a promissory note due to the CDE of \$1,880,000. This note requires interest-only payments until November 2020 at 0.77%. The loan matures in May 2028 and is secured by substantially all the assets acquired from the loan proceeds. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of CCML, which is repaid to the investment fund. The interest is then returned to CCML and, ultimately, 99.99% of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of CCML. In June 2019, the investment fund may exercise a put option resulting in CCML holding the debt, therefore releasing Habitat from any obligation outstanding under the promissory note.

Habitat was in compliance with the tangible net worth and debt service coverage ratios as required by the note agreement as of December 31, 2014.

Note 13 - Forgivable Notes Payable

Forgivable notes payable consist of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Notes due to the Denver Housing Authority and Globeville Workforce Housing. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue between 2018 and 2020, subject to Habitat meeting certain demographic guidelines. As of December 31, 2014, Habitat is meeting these demographic guidelines. During 2014 and 2013, a portion of these notes were forgiven in the amount of \$137,500 and \$302,500, respectively.	\$ 840,000	\$ 977,500
Notes due to the City and County of Denver. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue upon the sale of the last units developed with these funds to qualifying homeowners. As of December 31, 2014, Habitat is using the funds for those specified purposes.	<u>4,222,350</u>	<u>4,222,350</u>
	<u>\$ 5,062,350</u>	<u>\$ 5,199,850</u>

Note 14 - Net Assets

Unrestricted Board-Designated

The Board has designated \$2,000,000 and \$1,500,000 of unrestricted net assets at December 31, 2014 and 2013, respectively, for future land and infrastructure costs expected on outstanding and planned projects.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 14 - Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets are comprised of the following:

	<u>December 31,</u>	
	<u>2014</u>	<u>2013</u>
Home sponsorships	\$ 484,719	\$ 789,308
Land grant	<u>229,990</u>	<u>-</u>
Total	<u>\$ 714,709</u>	<u>\$ 789,308</u>

Note 15 - Lease Agreements

Habitat has entered into four non-cancelable operating leases agreements for ReStore buildings. The leases require escalating monthly payments ranging from approximately \$6,000 to \$19,000 and expire at various times ranging from February 2019 to July 2020. Habitat has also entered into non-cancelable operating lease agreements for five vehicles. The lease agreements have monthly payments ranging from \$1,099 to \$1,594, which include maintenance charges, and expire at various times ranging from February 2016 to June 2020. Lease expense for the years ended December 31, 2014 and 2013 was \$491,365 and \$429,818, respectively.

Future minimum lease payments, including estimated maintenance charges, are approximately as follows:

For the Year Ending December 31,

2015	\$ 589,000
2016	626,000
2017	640,000
2018	630,000
2019	484,000
Thereafter	<u>442,000</u>
	<u>\$ 3,411,000</u>

Note 16 - Transactions with Habitat International and Habitat Colorado

Habitat voluntarily remits a portion of its contributions to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended December 31, 2014 and 2013, Habitat contributed \$192,152 and \$165,529, respectively, to Habitat International. This amount is included in program services in the consolidated statements of activities.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 16 - Transactions with Habitat International and Habitat Colorado (continued)

Habitat is a sub-recipient of certain government grants received directly by Habitat International and Habitat Colorado.

Note 17 - Commitments and Contingencies

Guarantee Agreements

Habitat has entered into various grant agreements to receive funds for construction development costs. The grant arrangements require individuals who purchase homes funded by these grant monies to sign a promissory note payable to the grantor agency for a specified amount. The promissory note must be repaid to the grantor in the event of a sale, transfer, or other disposition of the home within a specified period of time. The promissory note is forgiven if a sale, transfer, or other disposition of the home does not occur within the time specified in the grant agreement.

Habitat has guaranteed these homeowners' promissory notes to the grantor agencies. Should Habitat need to foreclose on a home, it will pay the homeowner's promissory note from the proceeds arising from the resale of the home.

Grant Awards

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audits. Such audits could result in claims against Habitat for disallowed costs or non-compliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits as Habitat management believes that the use of funds comply with the stipulated restrictions.

Claims and Litigation

Habitat is subject to litigation from time to time. Habitat has determined that there are no material claims outstanding as of December 31, 2014 and 2013. However, to the extent not covered by insurance, Habitat has established a reserve for loss contingencies that are considered probable and reasonably estimable.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Notes to Consolidated Financial Statements

Note 18 - Retirement Plan

Habitat maintains a tax-deferred annuity plan (the "Plan") qualified under IRC Section 401(k). The Plan covers all employees of Habitat. Habitat provides employees the opportunity to contribute a portion of their gross salaries to the Plan, up to the maximum amount established by the Plan. Habitat matches 100% of employees' contributions up to a maximum of 3% of the employees' annual compensation. During 2014 and 2013, Habitat contributed \$97,890 and \$78,771, respectively, in matching contributions to the Plan. Effective January 1, 2014, Habitat amended the Plan for a safe harbor match of each participant's elective deferrals not exceeding 3% of the participant's compensation, plus 50% of the participant's elective deferrals in excess of 3% but not in excess of 5% of the participant's compensation.