

**HABITAT FOR HUMANITY OF
MONROE COUNTY, INC.**

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

June 30, 2016

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

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Independent Auditors' Report

To the Board of Directors
Habitat for Humanity of Monroe County, Inc.
Bloomington, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Monroe County, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2016, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 financial statements are free from material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Monroe County, Inc. as of June 30, 2016, and the changes in their net assets and their cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 22, 2016, on our consideration of Habitat for Humanity of Monroe County, Inc.'s 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 for Humanity of Monroe County, Inc.'s internal control over financial reporting and compliance.

Burns, Denning & Co., Ltd.

November 22, 2016
Indianapolis, Indiana

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
June 30, 2016

ASSETS

Cash and cash equivalents	\$ 647,322
Mortgages receivable (note 5)	3,757,638
Other assets	18,971
Investment fund (note 4 and 8)	40,718
Land held for development	1,363,488
Plant and equipment (note 6)	<u>222,891</u>
 Total Assets	 <u>\$ 6,051,028</u>

LIABILITIES

Accounts payable	\$ 185,902
Accrued expenses	57,595
Notes payable (note 7)	300,000
HUD shop notes payable (note 7)	<u>125,194</u>
 Total Liabilities	 <u>668,691</u>

NET ASSETS

Unrestricted net assets	<u>5,382,337</u>
 Total Liabilities and Net Assets	 <u>\$ 6,051,028</u>

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

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2016

REVENUE AND SUPPORT

Contributions	\$ 1,239,999
Grant revenue	203,539
Home sales (net of imputed interest)	671,286
Merchandise sales	559,705
Interest income	1,412
Disposal of leasehold improvements	(90,324)
Miscellaneous income	<u>29,241</u>
Total revenue and support	<u>2,614,858</u>

EXPENSES AND LOSSES

Program services	
Habitat	2,005,514
ReStore	<u>498,343</u>
Total program services	2,503,857
Management and administrative	35,448
Fundraising	<u>124,799</u>
Total expenses and losses	<u>2,664,103</u>
Change in net assets	(49,245)
Net assets - beginning of year	<u>5,431,582</u>
Net assets - end of year	<u>\$ 5,382,337</u>

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

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2016

	Program Services			Management and Administrative	Fundraising	Total
	Habitat	Restore	Total Program Services			
Salaries and wages	\$ 443,739	\$ 230,261	\$ 674,000	\$ 22,988	\$ 69,271	\$ 766,259
Temporary help	39,426	-	39,426	1,375	5,043	45,844
Computer support	13,845	3,851	17,696	609	1,980	20,285
Cost of homes sold	7,414	-	7,414	-	-	7,414
Construction supplies	1,192,694	-	1,192,694	-	-	1,192,694
Dues and memberships	-	7,520	7,520	-	-	7,520
Advertising	1,911	28,116	30,027	-	-	30,027
Rental expense	-	104,523	104,523	-	29,340	133,863
Insurance	33,277	7,484	40,761	1,348	2,827	44,936
Mortgage service & bank fees	14,589	-	14,589	486	1,135	16,210
Office supplies	8,199	3,980	12,179	400	765	13,344
Postage	15,998	313	16,311	543	1,254	18,108
Printing	-	3,358	3,358	107	107	3,572
Professional fees	37,071	6,829	43,900	1,454	3,101	48,455
Repairs and maintenance	4,010	23,253	27,263	876	1,054	29,193
Travel	23,655	1,011	24,665	821	1,872	27,358
Utilities	8,204	14,372	22,576	732	1,097	24,405
Telephone	-	21,511	21,511	687	687	22,884
Training	8,029	752	8,781	292	648	9,721
Vehicle expense	10,630	19,020	29,650	961	1,434	32,045
Contributions	111,000	-	111,000	-	-	111,000
Depreciation	13,032	18,688	31,720	1,031	1,610	34,361
Bank service fees	11,492	-	11,492	383	894	12,769
Other expenses	7,300	3,502	10,801	355	680	11,836
Total	\$ 2,005,514	\$ 498,343	\$ 2,503,857	\$ 35,448	\$ 124,799	\$ 2,664,103

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

**HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2016**

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ (49,245)
Adjustments to reconcile change in net assets	
Depreciation	34,361
Disposal of assets	90,125
Increase in mortgage receivable	(243,178)
Increase in land held for development	(72,316)
Increase in other assets	(17,771)
Decrease in accounts payable	135,329
Decrease in prepaid expense	10,826
Decrease in accrued expense	<u>(9,833)</u>
Net Cash Provided by (Used in) Operating Activities	<u>(121,702)</u>

INVESTING ACTIVITIES

Purchase of investments	(20,077)
Purchase of property and equipment	<u>(105,662)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(125,739)</u>

FINANCING ACTIVITIES

Payments on notes payable	(38,128)
Proceeds from notes payable	<u>28,188</u>
Net Cash Provided by (Used in) Financing Activities	<u>(9,940)</u>

Net change in cash and cash equivalents	(257,381)
Cash and cash equivalents - beginning of year	<u>904,703</u>
Cash and cash equivalents - end of year	<u>\$ 647,322</u>

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

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2016

1. NATURE OF OPERATIONS

Habitat for Humanity of Monroe County, Inc. (HFH) is an independent and locally governed tax exempt non-profit Indiana Corporation formed in 1988 for the purpose of providing residential housing for low-income families who have been residents of Monroe County and adjacent counties for at least one year.

HFH works to end poverty housing in Monroe County and adjacent counties by creating opportunities for home ownership in partnership with low-income families and by making safe, decent, affordable housing a matter of community conscience and action. Habitat builds market-quality homes utilizing volunteer labor and sells homes to qualified low-income families for minimal cash down and utilizing 15-25 year non-interest bearing mortgages. Families who purchase homes are identified by the Family Selection Committee who uses predetermined criteria which does not consider race, gender, nationality, age, handicap, religion, marital status or source of personal income. An approved applicant must provide 250 hours of "sweat equity" by participating in a significant amount of labor in its home construction program and/or in some other form of community service. In addition, each buyer must maintain the home as required by the mortgage contract and participate in HFH's nurturing program, which provides pre-purchase and post-purchase homeowner education and counseling.

In addition to home building activities, HFH also operated a retail thrift operation (dba ReStore). ReStore specializes in selling surplus new and used building and home improvement materials, appliances and furniture to the public. ReStore receives donated usable materials from retail businesses, contractors, individuals and other organizations. Costs associated with operation of ReStore are expensed in program-ReStore in the accompanying statement of activities and changes in net assets. All net proceeds from the operation of ReStore help support and enhance HFH's non-profit mission-related activities.

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting – The financial records have been prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America. Unrestricted net assets include all assets over which HFH has full discretion as to use. Temporarily restricted net assets include contributions whose use by HFH is limited by donor imposed stipulations either as to use or timing. As the restrictions are met, the net assets are released from restrictions and included in unrestricted net assets.

Contributions – Contributions and grants received without donor stipulations are reported as unrestricted revenue and net assets. Contributions and grants received with a donor stipulation that limits their use are reported as temporarily restricted revenue and net assets. When a donor stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory – ReStore donated materials are not valued or included in inventory and are reported as net income when sold.

Grants and Mortgages Receivable – Management periodically reviews receivables for collectability. HFH utilizes the allowance method to recognize bad debts.

Assets Held for Development – Assets held for development are reported at cost or if donated, at fair market value at date of donation. Once development is complete, the properties are sold to arranged buyers with selling price based upon a budgeted formula with excess basis expensed as program cost.

Equipment – Equipment is capitalized if greater than \$1,000 and is recorded at cost or fair market value at the date of donation. Depreciation is recognized over estimated useful lives of five years, using the straight-line method.

In-Kind Revenue and Expense – Donations of goods are valued at the estimated cost of purchasing the respective goods or services in the open market. Much of the labor on housing construction as well as fund raising activity is performed by unpaid volunteers. The value of this contributed time has not been included as a part of these financial statements.

Income Taxes – HFH is a tax-exempt organization, as defined by Internal Revenue Code Section 501(c)(3). Management believes that HFH has adequately addressed all relevant tax positions and that there are no material unrecorded tax liabilities.

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

Advertising Costs – are expensed as incurred. Costs totaled \$30,027 for the year ending June 30, 2016.

3. CASH AND CASH EQUIVALENTS

For purposes of the statements of cash flows, HFH considers all liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market accounts.

HFH maintains its cash in bank accounts which, at times, may exceed federally insured limits. Approximately \$70,700 of excess deposits existed as of June 30, 2016. HFH has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risks on cash and cash equivalents.

4. FAIR VALUE MEASUREMENT

In accordance with Accounting Standards Codification (ASC) 820 HFH measures its assets and liabilities at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. This hierarchy requires that entities maximize the use of observable inputs and minimizes the use of unobservable inputs when measuring fair value.

The three levels of inputs used for assets and liabilities on a recurring basis are as follows:

- Level 1 – Quoted prices in active markets for identical assets or liabilities
- Level 2 – Quoted prices for similar assets or liabilities in active markets
- Level 3 – Unobservable inputs for the asset or liability based on the best available information

The following table sets forth, by level, within the fair value hierarchy, the HFH's investments at fair value as of June 30, 2016.

	Level 1	Level 2	Level 3	Total
Cash & cash alternatives	\$ 840	\$ -	\$ -	\$ 840
Mutual funds	19,068	-	-	19,068
Exchange-traded products	20,810	-	-	20,810
Total investments at fair value	<u>\$ 40,718</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 40,718</u>

5. MORTGAGES RECEIVABLE

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. Most of the mortgages mature in 18-25 years. The receivable has been discounted using an imputed interest rate of 8% based upon Habitat for Humanity International averages. Interest income is recorded over the lives of the mortgages using the effective interest method. HFH's estimate for allowance of loan losses is zero. HFH has had historical success in collecting and makes every effort for homebuyers to arrange repayment even when experiencing financial difficulties. HFH also believes the homes securing the notes are sufficient collateral to not experience loan losses. Mortgages receivable as of June 30, 2016 were \$6,576,417 and were valued, net of present value amortization of \$2,818,779, at \$3,757,638 on the statement of financial position.

HFH also records a second mortgage on properties sold below market value to protect the value of the sale. These mortgages are valued at \$0 as collection is unlikely and are not included in these financial statements.

6. PROPERTY AND EQUIPMENT

HFH's property and equipment consisted of the following at June 30, 2016

	Cost	Accumulated Depreciation	Net Book Value
Leasehold Improvements	\$ 197,805	\$ 44,907	\$ 152,898
Building	75,325	30,426	44,899
Equipment	36,493	36,493	-
Vehicles	152,218	127,124	25,094
Total	<u>\$ 461,841</u>	<u>\$ 238,950</u>	<u>\$ 222,891</u>

Depreciation expense in 2016 totaled \$34,361.

7. NOTES PAYABLE

As of June 30, 2016, notes payable consisted of the following:

On June 1, 2013, HFH obtained a note from Habitat for Humanity International (loan no. 153023) which bears an interest rate of 0%. Monthly payments of \$781 are required. The note matures on September 1, 2021 and is unsecured. The outstanding balance as of June 30, 2016 is \$18,180.

On October 8, 2010, HFH obtained a note from Habitat for Humanity International (note no. 132034) which bears an interest rate of 0%. Monthly payments of \$625 are required. The note matures on January 1, 2017 and is unsecured. The outstanding balance as of June 30, 2016 is \$3,750.

On September 29, 2011, HFH obtained a note from Habitat for Humanity International (loan no. 152040) which bears an interest rate of 0%. Monthly payments of \$131 are required. The note matures on December 29, 2019 and is unsecured. The outstanding balance as of June 30, 2016 is \$3,175.

On December 4, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 181075) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2020 and is unsecured. The outstanding balance as of June 30, 2016 is \$28,839.

On August 5, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 191035) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2020 and is unsecured. The outstanding balance as of June 30, 2016 is \$2,850.

On August 5, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 192009) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2020 and is unsecured. The outstanding balance as of June 30, 2016 is \$36,337.

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7. NOTES PAYABLE - Continued

On February 15, 2015, HFH obtained a note from Habitat for Humanity International (loan no. 193005) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on June 30, 2021 and is unsecured. The outstanding balance as of June 30, 2016 is \$21,375.

During the year, HFH obtained a note from Habitat for Humanity International (loan no. 194004) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2021 and is unsecured. The outstanding balance as of June 30, 2016 is \$3,563.

During the year, HFH obtained a note from Habitat for Humanity International (loan no. 195001) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on December 31, 2021 and is unsecured. The outstanding balance as of June 30, 2016 is \$7,125.

During 2015, HFH extended a loan from an individual which bears an interest rate of 0%. Monthly payments are not required. The note matures February 25, 2019 at which point a balloon payment of \$300,000 is required. The loan is secured by certain business assets. The outstanding balance as of June 30, 2016 is \$300,000.

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2017	\$ 34,362
2018	29,588
2019	322,364
2020	22,332
2021	5,399
Thereafter	<u>11,149</u>
Total	<u>\$425,194</u>

8. INVESTMENT FUND

During the year the Wylie Foundation gifted an education fund to HFH. The Pat Wilson Education Fund "the fund" had deposits totaling \$20,020. The fund consists of mutual funds and exchange-traded products. HFH has invested contributions received per the donor's wishes and any expenditures are to be used for programs specified in the gift agreement currently to assist in encouraging secondary education opportunities for the children of Habitat families in Monroe County. As of June 30, 2016, no amount has been appropriated for expenditure. The fund is open to donations from other donors. Board is allowed to modify the fund and expenditures if circumstances or opportunities warrant change.

8. INVESTMENT FUND - Continued

Activity during the year is as follows:

Beginning balance	\$ 20,641
Contributions	20,020
Appreciation/depreciation	(2,939)
Withdrawals	(50)
Investment income	<u>3,046</u>
Ending balance	<u>\$ 40,718</u>

9. IN-KIND CONTRIBUTIONS

Habitat for Humanity received in-kind contributions for services and materials during 2016. The amounts of in-kind contributions for the year are as follows:

Services	\$ 35,685
Materials	<u>81,851</u>
Total	<u>\$ 117,536</u>

10. LINES OF CREDIT

During the year HFH obtained a line of credit from MainSource Bank with a limit of \$500,000. The note states an interest rate of 2.75% and matures on March 4, 2017. The note is secured by all business assets and no amount was outstanding during the year. As of June 30, 2016, there is no amount outstanding.

On April 16, 2015, HFH renewed a line of credit from Old National Bank with a limit of \$192,191. The note states an interest rate of 5% and matures on April 16, 2017. The note is secured by certain business assets and no amount was outstanding during the year. As of June 30, 2016, there is no amount outstanding.

On April 16, 2015, HFH renewed a line of credit from Old National Bank with a limit of \$90,300. The note states an interest rate of 5% and matures on April 16, 2017. The note is secured by certain business assets and no amount was outstanding during the year. As of June 30, 2016, there is no amount outstanding.

During the year, HFH renewed a line of credit from Old National Bank with a limit of \$45,871. The note states an interest rate of 5% and matures on January 25, 2017. The note is unsecured and no amount was outstanding during the year. As of June 30, 2016, there is no amount outstanding.

11. SUBSEQUENT EVENTS

Management has evaluated subsequent events for disclosure through November 22, 2016, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.



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Independent Auditor's 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

To the Board of Directors
Habitat for Humanity of Monroe County
Bloomington, Indiana

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 consolidated financial statements of Habitat for Humanity of Monroe County (HFH), which comprise the consolidated statement of financial position as of December 31, 2016, and the related consolidated statements of activities and changes in net assets, and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated November 22, 2016.

Internal Control Over Financial Reporting

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

Compliance and Other Matters

As part of obtaining reasonable assurance about whether HFH's consolidated 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 consolidated 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 or other matters 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 the entity's internal control or on compliance. This report is an integral part of the audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Burner, Dunning & Co., Ltd.

November 22, 2016
Indianapolis, Indiana