Habitat for Humanity of Monroe County, Inc.

Audited Financial Statements

For the Years Ended
June 30, 2011 and 2010

Habitat for Humanity of Monroe County, Inc.

Table of Contents
June 30, 2011 and 2010

SALLEE & COMPANY, INC.
CERTIFIED PUBLIC ACCOUNTANTS

Member American Institute of Certified Public Accountants
Member SEC practice Section
Member Indiana CPA Society

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of Habitat for Humanity of Monroe County, Inc (an Indiana not-for-profit corporation) as of June 30, 2011 and 2010, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis of designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion of the effectiveness of Habitat for Humanity of Monroe County, Inc's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, such financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of Monroe County, Inc. as of June 30, 2011 and 2010, and the results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Bedford, Indiana
January 21, 2012

357 E. WINSLOW ROAD ● BLOOMINGTON, INDIANA 47401 ● 812-337-9771 ● FAX 812-336-5542

1509 J STREET ● P.O. BOX 1148 ● BEDFORD, INDIANA 47421 ● 812-275-4444 ● FAX 812-275-3300

Habitat for Humanity of Monroe County, Inc.
Statements of Financial Position
As of June 30, 2011 and 2010

Assets		**2011**		**2010**
Current Assets				
Cash and equivalents	$	828,987	$	487,878
Grants receivable		43,600		-
Mortgages receivable, current		2,266,097		2,097,178
Grocery coupons unsold		2,788		1,672
Construction supplies inventory		-		4,361
Prepaid expenses		7,725		4,579
Total Current Assets	$	3,149,197	$	2,595,668
Non-Current Assets				
Land held for development	$	748,248	$	503,388
Plant & equipment, net of accumulated depreciation of $81,647 and $64,507, respectively		267,569		260,267
Total Non-Current Assets		1,015,817		763,655
Total Assets	$	4,165,014	$	3,359,323
Liabilities and Net Assets				
Current Liabilities				
Accounts payable	$	4,402	$	8,917
Accrued expenses		58,575		34,874
Home deposits		26,202		8,775
Current portion of long-term debt		35,024		45,091
Total Current Liabilities	$	124,203	$	97,657
Non-Current Liabilities				
Flexcap note payable, net of reserve of $10,586 and $0, respectively	$	121,934	$	155,089
HUD shop notes payable		65,826		48,759
AAR notes payable		-		7,285
Less: current portion of long-term debt		(35,024)		(45,091)
Total Non-Current Liabilities		152,736		166,042
Total Liabilities	$	276,939	$	263,699
Net Assets				
Unrestricted	$	3,888,075	$	3,095,624
Total Net Assets		3,888,075		3,095,624
Total Liabilities and Net Assets	$	4,165,014	$	3,359,323

See notes to financial statements

Habitat for Humanity of Monroe County, Inc.
Statements of Activities
For the Years Ended June 30, 2011 and 2010

	2011 Unrestricted	2010 Unrestricted
Revenue and Other Support		
Contributions	$ 816,739	$ 567,931
Grant revenue	872,615	536,939
Home sales (net of imputed interest)	516,464	657,888
Merchandise sales	352,358	221,629
Utility/credit card rebates	9,850	2,796
Rental income	13,406	2,872
Interest income	1,313	2,995
Grocery coupons	1,797	205
Miscellaneous income	741	17,019
Total Revenues and Other Support	$ 2,585,283	$ 2,010,274
Expenses		
Program services	$ 1,645,687	$ 1,560,414
Management and administrative	72,630	60,508
Fund raising	74,515	62,541
Total Expenses	1,792,832	1,683,463
Changes in Net Assets	$ 792,451	$ 326,811
Net Assets, Beginning of Year	$ 3,095,624	$ 2,768,813
Net Assets, End of Year	$ 3,888,075	$ 3,095,624

Habitat for Humanity of Monroe County, Inc.
Statement of Functional Expenses
For the Year Ending June 30, 2010

		Services				
	Habitat	ReStore	Total Program Services	Management & Administrative	Fundraising	Total
Salary & wages	$ 284,627	102,686	387,313	24,005	34,292	445,610
Payroll taxes	27,886	-	27,886	2,352	3,360	33,598
Benefits	11,662	1,194	12,856	984	1,405	15,245
Temporary help	30,239	6,150	36,389	2,550	3,643	42,582
Computer support	3,896	3,384	7,280	5,971	390	13,641
Cost of homes sold	858,070	-	858,070	-	-	858,070
Construction supplies	2,272	-	2,272	-	-	2,272
Dues & memberships	-	-	-	7	-	7
Advertising	-	6,983	6,983	-	-	6,983
Rental expense	-	842	842	75	7,130	8,047
Insurance	12,681	-	12,681	6,828	-	19,509
Mortgage services & bank fees	24,649	-	24,649	-	-	24,649
Office supplies	3,379	3,061	6,440	154	168	6,762
Interest expense	8,850	-	8,850	-	-	8,850
Postage	8,405	118	8,523	185	320	9,028
Printing	1,058	17	1,075	740	8,779	10,594
Professional services	5,439	-	5,439	3,750	-	9,189
Taxes	824	-	824	-	-	824
Repairs & maintenance	987	2,632	3,619	-	-	3,619
Travel	11,883	29	11,912	2,136	-	14,048
Utilities	-	9,927	9,927	3,587	-	13,514
Telephone/fax/internet	4,072	2,062	6,134	2,838	-	8,972
Training	551	-	551	-	-	551
Vehicle expense	3,208	5,935	9,143	695	-	9,838
Contributions	30,000	50,000	80,000	-	-	80,000
Depreciation	15,568	65	15,633	1,313	1,876	18,822
Bank service fees	31	2,477	2,508	73	1,178	3,759
Other	1,784	10,831	12,615	2,265	-	14,880
Total Expenses	$ 1,352,021	208,393	1,560,414	60,508	62,541	1,683,463

See notes to financial statements

Habitat for Humanity of Monroe County, Inc.
Statement of Functional Expenses
For the Year Ending June 30, 2011

		Services					
		Habitat	ReStore	Total Program Services	Management & Administrative	Fundraising	Total
Salary & wages	$	282,870	135,913	418,783	23,857	34,081	476,721
Payroll taxes		27,976	8,427	36,403	2,359	3,371	42,133
Benefits		6,044	1,634	7,678	510	728	8,916
Temporary help		34,400	29,319	63,719	6,880	4,587	75,186
Computer support		2,553	2,912	5,465	3,192	638	9,295
Cost of homes sold		843,779	-	843,779	-	-	843,779
Construction supplies		11,416	-	11,416	-	-	11,416
Dues & memberships		-	707	707	7	-	714
Advertising		2,673	10,985	13,658	-	-	13,658
Rental expense		-	299	299	-	8,728	9,027
Insurance		17,547	640	18,187	10,755	-	28,942
Mortgage services & bank fees		31,921	-	31,921	-	-	31,921
Office supplies		4,840	2,302	7,142	6,050	1,210	14,402
Interest expense		7,835	-	7,835	-	-	7,835
Postage		4,320	55	4,375	480	4,800	9,655
Printing		499	-	499	499	8,990	9,988
Professional services		6,128	-	6,128	2,785	2,228	11,141
Taxes		7,193	-	7,193	-	-	7,193
Repairs & maintenance		1,364	7,195	8,559	910	-	9,469
Travel		3,506	3,116	6,622	2,337	-	8,959
Utilities		-	17,234	17,234	3,958	-	21,192
Telephone/fax/internet		1,961	2,455	4,416	2,942	-	7,358
Training		7,893	-	7,893	-	-	7,893
Vehicle expense		6,059	5,049	11,108	4,040	-	15,148
Contributions		64,824	-	64,824	-	-	64,824
Depreciation		8,552	11,223	19,775	1,069	1,069	21,913
Bank service fees		2,042	4,407	6,449	-	4,085	10,534
Other		12,370	1,250	13,620	-	-	13,620
Total Expenses	$	1,400,565	245,122	1,645,687	72,630	74,515	1,792,832

See notes to financial statements

Habitat for Humanity of Monroe County, Inc.
Statements of Cash Flows
For the Years Ending June 30, 2011 and 2010

	2011	2010
Cash flows from operating activities		
Changes in net assets	$ 792,451	$ 326,811
Adjustments to reconcile changes in net assets to changes in net cash:		
Gain on sale of equipment	-	1,510
Depreciation expense	21,913	18,822
Change in prepaid expenses	(3,146)	16,833
Change in property held for sale	(244,860)	86,327
Change in grocery coupons	(1,116)	1,251
Change in construction supplies	4,404	596
Change in grants receivable	(43,600)	-
Change in mortgages receivable	(168,919)	(376,413)
Change in accounts payable	(4,515)	(45,618)
Change in accrued expenses	23,701	(773)
Change in home deposits	17,427	3,339
Change in other liabilities	-	85
Other	2	-
Net cash flow provided from (used by) operating activities	$ 393,742	$ 32,770
Investing Activities		
Purchase of property and equipment	(29,260)	(2,036)
Net cash flow provided from (used by) investing activities	$ (29,260)	$ (2,036)
Financing Activities		
Principal payments long term debt	(53,373)	(54,287)
Borrowing long-term debt	30,000	17,500
Net cash provided from (used by) financing activities	$ (23,373)	$ (36,787)
Change in Cash and Equivalents	341,109	(6,053)
Cash and Equivalents Beginning of Period	$ 487,878	$ 493,931
Cash and Equivalents End of Period	$ 828,987	$ 487,878
Supplemental data:		
Cash paid during the period for:		
Interest expense	$ 7,835	$ 8,850
Income taxes	$ -	$ -

See notes to financial statements

Habitat for Humanity of Monroe County, Inc.
Notes to Financial Statements
For the Years Ending June 30, 2011 and 2010

Note 1 - Summary of Significant Accounting Policies

Nature of Activity

Habitat for Humanity of Monroe County, Inc. (HFH) is an independently and locally governed tax-exempt non-profit Indiana Corporation formed in 1996 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.

Habitat 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 mortgage. 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 operates a retail thrift operation (d.b.a. 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.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect 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 revenues and gains, and expenses during the reporting period. Actual results could differ from those estimates.

Note 1 - Summary of Significant Accounting Policies (continued)

Basis of Accounting

The Organization follows accounting standards set by the Financial Accounting Standards Board ("FASB"). The FASB sets generally accepted accounting principles ("GAAP") that the Organization follows to ensure the consistent reporting of its financial condition, changes in net assets and cash flows. References to GAAP issued by FASB in the accompanying footnotes are to the FASB Accounting Standards Codification ("ASC").

The Organization's financial statements have been prepared in accordance with standards for accounting and financial reporting under ASC 958, *Not-for-Profit Entities* and the AICPA Audit and Accounting Guide, Not-*for-Profit Entities.* Under this authoritative guidance, the Organization is required to provide financial statements which are prepared to focus on the Organization as a whole and to present balances and transactions according to the existence or absence of donor-imposed restrictions.

The Organization prepares its financial statements in accordance with U.S. generally accepted accounting principles, which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred. Expirations of temporarily restricted net assets by virtue of satisfaction of the restriction or expiration of the restriction are reported as reclassifications between the applicable classes of net assets.

Accounting Method

HFH is required to report 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.

Permanently Restricted Net Assets – Permanently restricted net assets are subject to the restrictions of gift instruments requiring in perpetuity that principal be invested.

Temporarily Restricted Net Assets – Temporarily restricted net assets are those for which donor has placed a time or purpose restriction. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reported in the statement of activities as net assets released from restrictions.

Unrestricted Net Assets – Unrestricted net assets are those over which the Board of Directors of HFH retains full control to use in achieving its institutional purposes. All contributions are considered available for unrestricted use, unless specifically restricted by the donor or subject to other legal restrictions.

Note 1 - Summary of Significant Accounting Policies (continued)

Disclosure about Fair Value of Financial Instruments

Assets that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to valuation techniques, giving the highest priority to quoted prices in active markets for identical assets and liabilities and the lowest priority to unobservable value inputs. Fair value is defined as 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.

Observable inputs are those that market participants would use in pricing the asset or liability based on the best information available in the circumstances. The fair values hierarchy is categorized into three levels based on the inputs as follows:

Level 1 – Valuations based on unadjusted quoted prices in active market for identical assets or liabilities as of the reporting date. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of these securities does not entail a significant degree of judgment.

Level 2 – Valuations are based on quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly, as of the reporting date.

Level 3 – Valuations are based on inputs that are unobservable and include situations where there is little, if any, market activity for the investment. The inputs into the determination of fair value require significant management judgment or estimation.

In some instances, the inputs used to measure fair value may fall into different levels of fair value hierarchy. In such instances, an investment's level within fair value hierarchy is based on the lowest level of input that is significant to the fair value measurement.

The Organization's measurements of fair value are made on a recurring basis, and their valuation techniques for assets and liabilities recorded at fair values are as follows:

Investments – The fair value of investments is the market value based on quoted market prices, when available, or market prices provided by recognized broker dealers. If listed prices or quotes are not available, fair value is based upon extremely developed models that use unobservable inputs due to limited market activity of the investment. As of June 30, 2011 and 2010 there were no investments.

Advertising

Advertising costs are expensed as incurred. Advertising expenses were $13,658 and $6,983 as of June 30, 2011 and 2010, respectively.

Note 1 - Summary of Significant Accounting Policies (continued)

Contributed Materials and Services

Much of the labor on housing construction as well as fund raising activities is performed by unpaid volunteers. The value of this contributed time has not been valued, and hence is not a part of these financial statements. Building materials donated to the ReStore operations have not been valued. Sale of these items is recorded as net income to ReStore. These items and services are not susceptible to objective measurement. Donated items such as new appliances for the houses being constructed are valued at their cost by the donor.

Income Taxes

The Organization is a nonprofit charitable organization as described in Section 501 (c) 3 of the Internal Revenue Code and therefore made no provision for federal and state income taxes in the accompanying financial statements. In addition, the Organization has been determined by the Internal Revenue Service not to be a "Private Organization" within the meaning of Section 509(a) of the Internal Revenue Code. There was no unrelated business income for the year ended June 30, 2011 or 2010. Gifts to the Organization are tax deductible. HFH solicits contributions from individuals, businesses, and churches in the Bloomington, Monroe County area and also receives grants from HFH International as well as other organizations.

The Financial Accounting Standards Board (FASB) prescribes a comprehensive model for recognizing, measuring, presenting, and disclosing in the financial statements tax positions taken or expected to be taken on a tax return including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business and will be accounted for as an adjustment to the opening balance of retained earnings. Additional disclosures about the amounts of such liabilities will be required also. HFH presently discloses or recognizes income tax positions based on management's estimate of whether it is reasonably possible or probable, respectively, that a liability has been incurred for unrecognized income tax benefits Management evaluated the Organization's tax positions and concluded that the Organization had taken no uncertain tax positions that require adjustment to the financial statements to comply with the provisions of the accounting standards. Management is not aware of any matters which would cause the Organization to lose its tax-exempt status.

Cash and Cash Equivalents

For purposes of the statement of cash flows, HFH considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Note 2 - Mortgages Receivable

Mortgage receivable consists of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. The majority of the mortgages have an original maturity of 18-25 years. These mortgages have been discounted for accounting purposes, based on prevailing market rates as provided by Habitat for Humanity International which averages an imputed interest rate of eight percent (8%). Interest income (mortgage discount amortization) is recorded using the effective interest method over the lives of the mortgages. Receivables related to the mortgages are considered past-due or delinquent by the Organization when they are 30 days late.

HFH's estimate for allowance for loan losses is based on historical collection experience and a review of the status of the mortgage receivable. Through its Homeowner Services program, HFH works with delinquent homeowners to identify opportunities for financial budgeting improvement. HFH has historically experienced great success in educating delinquent homeowners, and structuring payment plans to cure delinquencies within a minimal amount of time. It is reasonably possible the HFH's estimate of the allowance for loan losses will change in future years. Due to the historical success experienced by HFH in regards to collecting mortgages receivable, management has determined that all mortgages are collectible, thus no allowance for doubtful accounts has been recorded. As of June 30, 2011 and 2010, HFH held mortgages for 94 and 86 houses, respectively. Mortgage receivables valued net of amortization are recorded in the amount of $2,266,097 and $2,097,178 as of June 30, 2011 and 2010, respectively. Mortgage receivables as of June 30, 2011 are $4,023,492 and are valued net of amortization of $1,757,395 in the amount of $2,266,097 in the statement of financial position.

Future collections on these mortgages are as follows:

June 30, 2012	$	327,348
June 30, 2013		324,755
June 30, 2014		323,544
June 30, 2015		317,049
June 30, 2016		308,709
June 30, 2017 and thereafter		2,422,087

Note 3 – Grocery Coupons

HFH purchases grocery coupons at a 5% discount from Kroger and Marsh which it sells as part of fund raising activities. During the years ended June 30, 2011 and 2010, HFH had sales from gift cards from local grocery retailers of $1,797 and $250. Grocery coupons not sold are valued at cost in the amount of $2,788 and $1,672 as of June 30, 2011 and 2010, respectively.

Note 4 – Land, Property and Equipment

Land, property and equipment are stated at cost or, in the case of donated property or equipment, at appraised value at the date of acquisition. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. The Organization reclassifies temporarily restricted net assets at that time. Depreciation is computed using primarily the straight-line method based upon the following estimated useful lives of such assets:

			Years
	Buildings and improvements		10-40
	Machinery and equipment		5-10
	Furniture, fixtures and other		5-10

Routine maintenance and repairs under $1,000 are expensed as incurred and major additions or improvements are capitalized. Upon retirement, sale or disposition of property and equipment, the cost and accumulated depreciation are eliminated from the accounts, and gain or loss included in operations.

The following are the components of Land, Property and Equipment:

		6/30/11		**6/30/10**
Campbell House improvements	$	120,723	$	120,767
Lindbergh rental		75,106		75,106
Equipment		23,750		23,750
Office equipment		15,429		15,728
Vehicles		96,593		71,808
Land Lindbergh rental		17,615		17,615
Less: accumulated depreciation		(81,647)		(64,507)
Total Land, property and equipment	**$**	**267,569**	**$**	**260,267**

Depreciation expense for the years ended June 30, 2011 and 2010 was $21,913 and $18,822, respectively.

In accordance with ASC 360-10, *Property, Plant and Equipment,* the Organization periodically reviews the carrying value of long-lived assets held and used, and assets to be disposed of, for possible impairment when events and circumstances warrant such review. Through June 30, 2011, the Organization had not experienced impairment losses on its long-lived assets.

Note 5 - Notes Payable

HFH notes payable from Habitat for Humanity International, Inc. as of June 30, 2011.

Loan Number	Note Balance	Current Portion Long-term Debt	Collateral	Interest Rate	Maturity Date	Original Loan Date	Monthly Payment
121054	3,660	2,436	Unsecured	0%	7/01/2012	6/11/2007	203.00
122016	1,240	804	Unsecured	0%	1/01/2013	7/09/2007	67.00
123011	3,260	1,620	Unsecured	0%	7/01/2013	2/21/2008	135.00
131079	10,166	2,028	Unsecured	0%	12/01/2013	11/15/2008	338.00
132034	30,000	0	Unsecured	0%	1/01/2017	10/08/10	625.00
151039	17,500	4,368	Unsecured	0%	12/29/2014	9/29/2009	364.00
Flexcap 09	132,520	23,768	Mortgage	5.30%	6/01/2016	4/01/2009	2528.74
Total	198,346	35,024					

HFH notes payable from Habitat for Humanity International, Inc. as of June 30, 2010.

Loan Number	Note Balance	Current Portion Long-term Debt	Collateral	Interest Rate	Maturity Date	Original Loan Date	Monthly Payment
103025	4,017	3,984	Unsecured	0%	6/01/2011	08/01/2006	332.00
121054	6,096	2,436	Unsecured	0%	7/01/2012	6/11/2007	203.00
122016	2,044	804	Unsecured	0%	1/01/2013	7/09/2007	67.00
123011	4,880	1,620	Unsecured	0%	7/01/2013	2/21/2008	135.00
131079	14,222	2,028	Unsecured	0%	12/01/2013	11/15/2008	338.00
151039	17,500	4,368	Unsecured	0%	12/29/2014	9/29/2009	364.00
50333	7,285	7,285	Mortgage	3.25%	12/01/2010	3/01/2004	409.66
Flexcap 09	155,089	22,566	Mortgage	5.30%	6/01/2016	4/01/2009	2528.74
Total	211,133	45,091					

Future scheduled maturities of long term obligation are as follows:

June 30, 2012	$	35,024
June 30, 2013		42,247
June 30, 2014		40,342
June 30, 2015		41,779
June 30, 2016		38,954
June 30, 2017 and thereafter		0

Note 6 – Concentration of Credit Risk

HFH maintains its cash in bank deposit accounts insured by the Federal Deposit Insurance Corporation (FDIC) at its current coverage levels. HFH has not experienced any losses in such accounts. HFH believes it is not exposed to any significant credit risk on cash. HFH's uninsured cash balances exceeded the FDIC limit by $19,831 and $12,085, as of June 30, 2011, and 2010, respectively. As required by Habitat for Humanity International, Inc. included in cash and cash equivalents in a separate bank account, in the amount of $1 at June 30, 2011 and 2010, are temporarily restricted net assets for the purpose of the SHOP account.

As of June 30, 2011 and 2010, the Organization's uninsured cash balances including certificates of deposit totaled $35,514. As of June 30, 2011 and 2010 certificates of deposit having maturities of twelve months or less were $35,514 and $35,514, respectively and twelve months or more were $0.

Note 7- Property Held for Development and Resale

HFH purchases building lots on which residential dwellings will be constructed in the future. Land held for development was $748,248 and $503,388, respectively as of June 30, 2011 and 2010. The building lots are reported at the lower of cost or fair value, and is initially measured at acquisition cost (including brokerage and other transaction fees) if purchased or at fair value if received as a contribution.

Note 8 - Amortization of Homes Sold

The selling price of each HFH home is calculated as follows:

Bids for all material to be used in a home are submitted in December of the year, being received in January of the following year. A fixed cost for land is added. HFH subsidizes part of the housing costs. In this way costs are updated annually. Amounts are added for administrative costs plus any allowances for options chosen by the prospective homeowner. Costs in excess of "budgeted" amounts are absorbed as program expenses by HFH.

Note 9 - Long Term Contracts

On March 11, 2009, HFH entered into a construction contract in the amount of $342,000 with an independent third party for the development of infrastructure. HFH is responsible for remitting payments as work is completed and approved for payment. During the fiscal year ended June 30, 2010, the remaining balance was paid as the work was completed.

Note 10 - Restore Operation

Restore was instituted in fiscal year 2004 to sell donated building materials to the general public. In 2011 and 2010, revenues realized exceeded the cost of operations by $110,600 and $56,851, respectively.

Note 11 - Related Party Transactions

There were no known related party transactions in the current or prior year.

Note 12 – Commitments and Contingencies

Collection of Second Mortgages

In addition to the non-interest bearing mortgage received from the sale of each home, HFH may issue a contingent second mortgage. The second mortgages, issued by HFH, represent the excess of the market value of the home over the original loan at the date the second mortgage is executed. Should the homeowner pay off the primary mortgage early or default on the mortgage, the second mortgage would become due. Due to the recent and current decline in the real estate market, the second mortgage payoff is considered remote by HFH, and therefore no receivable has been recorded in the current year financial statements.

Credit and Operational Risk

Due to the fact that HFH's programs are concentrated in Monroe County, Indiana, the level of contributions, home sales and collections of mortgages receivable may be affected by changes in economic or other conditions which affect this locale.

Building Lease

On September 18, 2006 the First Christian Church and HFH entered into an agreement whereas HFH for the sum of one dollar shall rent the office building located at 213 East Kirkwood Avenue in Bloomington, Indiana for the period of twenty (20) years ending on September 17, 2026. In addition to the one dollar rent HFH further agreed to renovate the office building at a sum to approximate $130,000 to make the building suitable for their business offices. In the event of early lease termination the church agrees to a buyout provision whereas the church remits to HFH the depreciated value as of the termination date any improvements made by HFH to the devised premises as evidenced by Internal Revenue Service depreciation schedules.

Note 13– Summary of Grants

Grants and bequests require the fulfillment of certain conditions as set forth in the instrument of grant. Failure to fulfill the conditions could result in the return of funds to grantors. Although that is a possibility, the Board deems the contingency remote, since by accepting gifts and their terms; it has accommodated the objectives of the Organization to the provisions of the gift.

Note 13 – Summary of Grants (continued)

HFH receives funding from several federal financial assistance programs that supplement its traditional funding sources. HFH recognizes the award as government grant revenue as the expenses in the grant agreement have been incurred.

City of Bloomington

In fiscal year June 30, 2011, the City of Bloomington and Neighborhood Development Department (HAND) awarded $324,500 in federal grants with the following objective: to help pay for the land for construction of ten single-family homes for low-income individuals and families in accordance with HUD regulations. The funds originate with the U.S. Department of Housing and Urban Development ("HUD") and are passed through the City of Bloomington. Under the terms of the agreement the City of Bloomington acquires the lots with funds from the federal HOME program and then executes a partnership agreement with HFH. The agreement passes title to HFH with the execution of a mortgage to the City for each lot. When construction of a decent, affordable home is constructed and sold to a qualifying low-income buyer, then the city forgives the mortgage and HFH records the cost of the lot as grant income. As of June 30, 2011, HFH is in compliance with the partnership agreement which required construction to begin within one year of the agreement on each lot. As of June 30, 2011, only one lot was under construction and $30,000 was included in grants receivable.

The City of Bloomington awarded non-federal funds of $17,000 from the Jack Hopkins Social Services Grant to purchase construction truck and trailer for the furtherance of the HFH mission. The City of Bloomington also awarded $1,500 for the furtherance of the HFH mission.

In fiscal year June 30, 2010, the City of Bloomington and Neighborhood Development Department (HAND) awarded $89,000 in federal grants with the following objective: to help pay for the construction of two single-family homes for low-income individuals and families in accordance with HUD regulations. The City of Bloomington also awarded non-federal funds of $1,000 for the furtherance of the HFH mission.

Indiana Housing and Community Development Authority (IHCDA)

As of June 30, 2010, IHCDA awarded HFH federal funds of $482,500 for the construction of eleven (11) single family homes for low-income individuals and families. The funds originated with the U.S. Department of Housing and Urban Development ("HUD") and are passed through the IHCDA. Costs are reimbursed as expenses are incurred. Included in the grant was $401,500 for new home construction, $70,000 developer's fee and $11,000 for home ownership counseling. As of June 30, 2011 and 2010, $295,379 and $183,180, respectively was applied for, received, and included in grant income on the statement of financial position. As of June 30, 2011, the eleven (11) homes, and homeownership counseling were completed in compliance with the grant.

Note 13 – Summary of Grants (continued)

Habitat for Humanity International (HFHI)

As of June 30, 2011, the HFHI Self-Help Homeownership Opportunities Program (SHOP) awarded federal grants of $120,000 for the purchase of land and/or infrastructure for eight units. HFH agrees to build energy star–labeled houses and use energy star-labeled products and appliances. The program provides for 75% grant of $90,000 and 25% loan of $30,000. The funds originate with the U.S. Department of Housing and Urban Development ("HUD") and are passed through HFHI.

As of June 30, 2010, the HFHI Self-Help Homeownership Opportunities Program (SHOP) awarded $70,000 for the purchase of land and/or infrastructure for six units. HFH agrees to build energy star –labeled houses and use energy star-labeled products and appliances. The program provides for 75% grant of $52,500 and 25% loan of $17,500.

Federal Home Loan Bank (FHLB)

As of June 30, 2011 and 2010, the FHLB Homeownership Opportunities Program (HOP) Grants awarded $40,000 and $100,000, respectively to homeowner borrowers with the agreement that the borrower shall maintain ownership and reside in the property as their primary residence for a period of five (5) years from the date of closing.

Note 14 – Retirement Plan

The Organization provides a pension plan under the provisions of 401(k) of the Internal Revenue Code for qualifying employees. Eligible employees are employees with one year of service and minimum age of 21. An eligible employee may make a salary reduction election to have his or her compensation for each pay period reduced by a percentage or set dollar amount. The total amount of the reduction in the employee's compensation cannot exceed $16,500 or $21,500 catch-up provisions for employees over fifty years of age for any calendar year. For each calendar year, the Organization, with board approval, will make a matching contribution to each eligible employee's pension equal to the employee's salary reduction contributions up to a limit of 3% of the employee's compensation for the calendar year.

The pension account expenses and balances are summarized below:

	6/30/11	**06/30/10**
Matching employer contributions	$ 8,255	$ 7,806
Employee contributions	20,882	18,983
	$ 29,137	$ 26,789

Note 15 – Subsequent Events

The Organization evaluated subsequent events through January 21, 2012, which represents the date the financial statements were available to be issued. Material subsequent events that required recognition or additional disclosure at that date included the following:

On June 15, 2011, the City of Bloomington awarded $18,117 from the Jack Hopkins Social Services Grant to purchase a Bobcat compactor tractor and siding brake for the furtherance of the HFH mission. As the conditions of the grant had not been fulfilled as of June 30, 2011 this is included as information only.

Index [WPRef]

NPO-CX-15.3: Audit Finding Development Worksheet—Federal Award Programs

Organization: HFHMC
Completed by: DSD CPA

Statement of Financial Position Date: June 30, 2011
Date: January 13, 2011

Instructions: This form may be completed each time an audit finding or potential audit finding is encountered during an audit of a federal award program. Pertinent facts and details should be documented by briefly completing each section. These comments should be as specific as possible, but the point need not be drafted in final form for the report on this worksheet. Additional facts and details included in the work papers may be referenced to/from this worksheet. If, because of the nature of the finding, a section of this worksheet is not applicable, the reason should be explained. (You may be asked later to justify why the section is not in the report.)

Information[ab]

CFDA No.: 14.239 Program Title: HOME

Federal Award No.: HM-008-005 Federal Award Year: 2009

Name of pass-through entity, when applicable: Indiana Housing Community Development Authority

Note: When the above information is not available, OMB Circular A-133 (Gov. Doc. No. 8 in *PPC's Government Documents Library*) indicates that the best information available should be provided.

1. Document the following:
   a. The condition(s) found, including facts that support the deficiency identified in the audit finding. Recipients of HOME award are subject to HUD requirements of dealing with Lead based paint hazards. The lead-based paint hazards sheet was signed by contractors but the name was not written or typed on the form and the signature were not always legible...
   b. The criteria or specific requirements upon which the audit finding is based, including statutory, regulatory, or other citations that support the conditions being identified as a deficiency. [c] Recipients of HOME award are subject to HUD requirements of dealing with Lead based paint hazards. For the regulatory requirements of lead-based paint hazards see 24 CFR Part 35 or refer to IHCDA's Implementation manual.
   c. Effects or possible effects of the condition. The inability to verify the subcontractor was provide the brochure in the homeowner files under Tab 18 - Acceptance of "Steps to Lead Safe Renovation, Repair, and Painting" Brochure by subcontractors - signed acceptance statements by subcontractors.
   d. When applicable, identification of questioned costs and how they were computed. N/A
   e. When applicable, the cause of the condition upon which the audit finding is based, including facts that support the deficiency identified in the audit finding. The cause is poorly designed policies, procedures, or criteria; inconsistent, incomplete, or incorrect implementation.
   f. When applicable, information to provide proper perspective for judging the prevalence and consequence of the audit finding, such as whether the audit finding represents an isolated instance or a systemic problem. (Where appropriate, instances identified should be related to the universe and the number of cases examined and is quantified in terms of dollar value.) The finding was able to be translated into a dollar value. N/A The instance was not isolated as the same form was used with no written or typed signature line.
   g. Recommendations to correct the deficiency identified and to prevent future occurrences. Add a line of the form for printed name or type the name on the form so the signer's name is legible.
   h. Views of responsible official(s) of the auditee. On January 13, 2012 , discussed the finding with Kerry Thomson, Executive Director, Sean Price, Office Manager, and Tom Bordeaux, Construction Manager and all agreed adding the written name to the Lead based Paint hazards form was to be implemented immediately. This was an acceptable solution and not considered a finding which was reportable.

Conclusion

1. Complete the following:

   Point approved for communication? Yes x No (indicate why not) [___]

   Report Reference No.: [___] (See the discussion at section 1406 of this *Guide*.)

By: DSD CPA Date: January 13, 2011

Notes

[a] **OMB Circular A-133.** OMB Circular A-133 (Gov. Doc. No. 8 in *PPC's Government Documents Library*) requires the auditor to report audit findings, including significant deficiencies and material weaknesses in internal controls, in a schedule of findings and questioned costs. The auditor's determination of whether a deficiency in internal control is a reportable condition and if it is a material weakness for reporting purposes, is made in relation to a type of compliance requirement or an audit objective relative to a major program. The auditor may wish (but is not required) to report other matters involving internal controls and the entity's operations noted during the audit that constitute a deficiency less serious than a material weakness or a significant deficiency.

Section 510(b) of OMB Circular A-133 includes specific information that must be included, when applicable, in the audit findings. This worksheet is designed to assist the auditor in accumulating this information and in some instances to document why the findings are not reported. Use of the worksheet is optional, but recommended. If the worksheet is not used, the same information should be documented in the audit work papers. The Circular (as revised in June 2007) states the auditor should report the following as audit findings:

> *Significant deficiencies and material weaknesses*. See note b.None noted
>
> *Material noncompliance* with the provisions of laws, regulations, contracts, or grants agreements relating to major programs. The auditor's determination of whether noncompliance is material for this purpose is in relation to a type of compliance requirement or an audit objective (identified in the Compliance Supplement) related to a major program. None Noted
>
> *Known questioned costs* that exceed $10,000 for a type of compliance requirement and known questioned costs when the likely questioned costs exceed $10,000. Known questioned costs are those specifically identified by the auditor. Likely questioned costs are the auditor's best estimate of the total questioned costs based on the information available. (For example, if the auditor tests 20% of a total and finds $2,100 in known questioned costs, the likely questioned costs might be $10,500.) In most instances, questioned costs will be identified in relation to major programs since there is no requirement to perform audit procedures for nonmajor programs. However, if the auditor becomes aware of questioned costs exceeding $10,000 that relate to a nonmajor program, it should be reported as a finding. In reporting questioned costs, the auditor should include information to provide proper perspective for judging the prevalence and consequences of the questioned costs. None noted
>
> *Circumstances concerning why the auditor's opinion on compliance is other than unqualified,* unless otherwise reported as an audit finding. N/A
>
> *Known fraud* affecting a federal award, unless such fraud is otherwise reported as an audit finding or unless the auditor confirms that the fraud was reported outside of the auditor's reports under the direct reporting requirements of GAGAS. None Noted
>
> *Instances where the results of audit follow-up procedures* disclosed that the summary of prior audit findings prepared by the auditee in accordance with Section 315(b) of Circular A-133 materially misrepresent the status of any prior audit finding. N/A

[b] In March 2010, the OMB posted a statement at the beginning of OMB Circular A-133 clarifying that the terms *material weakness* and *significant deficiency* are to be used as defined in generally accepted auditing standards issued by the AICPA and *Government Auditing Standards* issued by the Government Accountability Office. In conjunction with the OMB statement, the AICPA issued a related auditing interpretation and illustrative reports with SAS No. 115 definitions. See section 1308 and the reports illustrated in Appendixes 13H-1 and 13H-2 and of this *Guide*.

[c] According to Paragraph 4.15 of the Yellow Book, *criteria* identify an expectation or a required or desired state. Criteria for audit findings are the “laws, regulations, contracts, grant agreements, standards, measures, expectations of what should exist, defined business practices, and against which performance is compared or measured.”

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ONINTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

To the Board of Trustees of
Habitat for Humanity of Monroe County, Inc.

Compliance

We have audited Habitat for Humanity for Monroe County, Inc. compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Habitat for Humanity for Monroe County, Inc. major federal programs for the year ended June 30, 2011. Habitat for Humanity for Monroe County, Inc. major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Habitat for Humanity for Monroe County, Inc. management. Our responsibility is to express an opinion on Habitat for Humanity for Monroe County, Inc. compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity for Monroe County, Inc. compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Habitat for Humanity for Monroe County, Inc. compliance with those requirements.

In our opinion, Habitat for Humanity for Monroe County, Inc. complied, in all material respects, with the compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended June 30, 2011. However, the results of our auditing procedures disclosed instances of noncompliance with those requirements, which are required to be reported in accordance with OMB Circular A-133 and which are described in the accompanying schedule of findings and questioned costs as items No instances of noncompliance and thus no schedule is attached.

Internal Control Over Compliance

Management of Habitat for Humanity for Monroe County, Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Habitat for Humanity for Monroe County, Inc. internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity for Monroe County, Inc. internal control over compliance.

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

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

Schedule of Expenditures of Federal Awards

We have audited the basic financial statements of Habitat for Humanity for Monroe County, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated January 21, 2012. Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

We have audited the financial statements of Habitat for Humanity for Monroe County, Inc. as of and for the year ended June 30, 2011, and have issued our report thereon dated January 21, 2012, which contained an unqualified opinion on those financial statements. Our audit was performed for the purpose of forming an opinion on the financial statements as a whole. The schedule of expenditures of federal awards is presented for the purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Habitat for Humanity for Monroe County, Inc. responses to the findings identified in our audit are described in the accompanying schedule of findings and questioned costs. We did not audit Habitat for Humanity for Monroe County, Inc. responses and, accordingly, we express no opinion on the responses.

This report is intended solely for the information and use of management, the Board of Directors, and federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Sallee & Company, Inc.
Bedford, In
January 21, 2012

PPC Guide Links

NPO-CX-1.7

Single Audit and Major Program D

1	2	3	4	5	6
Name of Agency or Department	**CFDA or Other No.**	**Name of Program**	**Name of Grant**	**Grant I.D. No.**	**Award Amount**
Habitat for Humanity International	14.247	SHOP Self-help Homeownership Opportuni	SHOP 2006	E132034	$ 120,000
					-
					-
					-
					120,000
City of Bloomngton - HAND	14.239	HOME	14th & College		$ 234,500
			Thorton Land		60,000
					-
					-
					294,500
IHCDA Indiana Housing Communit	14.239	HOME		HM-008-00!	$ 293,127
					1,192
					1,059
					-
					295,379
					$ -
					-
					-
					-
					-
					$ -
					-
					-
					-
					-
Total Financial Awards, All Programs					

Index

Determination Worksheet

7	8	9	10	11
Total Awards Expended	Last Year Audited as a Major Program	Type Program (A or B)	Non-major Program	Major Program
$ 120,000				
-				
-	no		x	
-				
120,000				
$ 234,500				
60,000	no			x
-				
-				
294,500				
$ 293,127				
1,192				
1,059	no			x
-				
295,378				
$ -				
-				
-				
-				
-				
$ -				
-				
-				
-				
-				
$ 709,878				

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 Trustees of
Habitat for Humanity of Monroe County, Inc.

We have audited the financial statements of Habitat for Humanity of Monroe County, Inc. (a nonprofit organization) as of and for the year ended June 30, 2011, and have issued our report thereon dated January 21, 2012. 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.

<u>Internal Control over Financial Reporting</u>

In planning and performing our audit, we considered Habitat for Humanity of Monroe County, Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Monroe County, Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Organization's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

<u>Compliance and Other Matters</u>

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

This report is intended solely for the information and use of management, board of directors, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Sallee & Company, Inc.
Bedford, Indiana
January 21, 2012