HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

June 30, 2012

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

We have audited the accompanying statement of financial position of Habitat for Humanity of Monroe County, Inc. (HFH) as of June 30, 2012, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of HFH's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by HFH's management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of HFH as of June 30, 2012 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 2, 2012 on our consideration of HFH'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 the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Gauthier + Kimmerling, LLC

October 2, 2012

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2012

ASSETS	
Cash	$ 800,977
Grants receivable (Note 12)	15,593
Mortgages receivable	2,870,473
Grocery coupons unsold	2,028
Prepaid expenses	10,826
Land held for development	571,835
Plant and equipment	325,042
Total Assets	$ 4,596,774
LIABILITIES	
Accounts payable	$ 72,465
Accrued expenses	50,744
HUD shop notes payable	61,046
Flexcap note payable, net of a deposit of $10,586.	98,145
Total Liabilities	282,400
NET ASSETS	
Unrestricted	4,244,374
Temporarily restricted (Note 10)	70,000
Total Net Assets	4,314,374
Total liabilities and net assets	$ 4,596,774

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, 2012

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Contributions	$ 938,699	$ 70,000	$ 1,008,699
Grant revenue	475,006	-	475,006
Home sales (net of imputed interest)	1,015,732	-	1,015,732
Merchandise sales	450,816	-	450,816
Rental Income	1,969	-	1,969
Interest income	1,317	-	1,317
Miscellaneous income	25,349	-	25,349
	2,908,888	70,000	2,978,888
Net assets released from restriction	-	-	-
Total revenue and support	2,908,888	70,000	2,978,888
EXPENSES AND LOSSES			
Program services			
Habitat	2,211,743	-	2,211,743
ReStore	238,709	-	238,709
Total program services	2,450,452	-	2,450,452
Management and administrative	45,025		45,025
Fundraising	57,112	-	57,112
Total expenses and losses	2,552,589	-	2,552,589
Change in net assets	356,299	70,000	426,299
Net assets - beginning of year	3,888,075	-	3,888,075
Net assets - end of year	$ 4,244,374	$ 70,000	$ 4,314,374

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2012

	Program Services					
	Habitat	Restore	Total Program Services	Management and Administrative	Fundraising	Total
Salaries and wages	$ 376,854	$ 138,252	$ 515,106	$ 28,766	$ 31,448	$ 575,320
Payroll taxes	17,619	-	17,619	1,001	1,402	20,022
Employee benefits	10,407	1,580	11,987	675	845	13,507
Temporary help	16,985	13,626	30,611	1,690	1,496	33,797
Computer support	14,192	3,740	17,932	987	828	19,747
Cost of homes sold	1,501,118	-	1,501,118	-	-	1,501,118
Construction supplies	3,540	-	3,540	-	-	3,540
Dues and memberships	-	685	685	-	-	685
Advertising	-	7,992	7,992	-	-	7,992
Rental expense	-	11,850	11,850	-	8,213	20,063
Insurance	19,040	5,893	24,933	1,371	1,120	27,424
Mortgage sevice & bank fees	24,529	-	24,529	-	-	24,529
Office supplies	2,795	1,563	4,358	238	172	4,768
Interest expense	6,674	-	6,674	-	-	6,674
Postage	8,420	97	8,517	473	469	9,459
Printing	8,391	189	8,580	476	468	9,524
Professional fees	37,794	-	37,794	2,100	2,100	41,994
Taxes	3,349	-	3,349	186	186	3,721
Repairs and maintenance	2,740	15,142	17,882	958	313	19,153
Travel	21,402	456	21,858	1,212	1,194	24,264
Utilities	3,587	11,227	14,814	796	319	15,929
Telephone	4,097	2,258	6,355	348	252	6,955
Training	5,634	95	5,729	318	314	6,361
Vehicle expense	14,130	9,142	23,272	1,271	882	25,425
Contributions	87,450	-	87,450	-	-	87,450
Depreciation	8,809	14,668	23,477	1,270	645	25,392
Bank Service Fees	3,569	-	3,569	397	3,966	7,932
Other Expenses	8,618	254	8,872	492	480	9,844
Total	$ 2,211,743	$ 238,709	$ 2,450,452	$ 45,025	$ 57,112	$ 2,552,589

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, 2012

CASH FLOWS FROM OPERATING ACTIVTIES	
Change in net assets	$ 426,299
Adjustments to reconcile change in net assets	
Depreciation	25,392
Decrease in grants receivable	28,007
Increase in mortgage receivable	(604,376)
Decrease in grocery coupons unsold	760
Increase in prepaid expense	(3,101)
Decrease in land held for development	176,413
Increase in accounts payable	68,063
Decrease in accrued expense	(7,831)
Decrease in home deposits	(26,202)
Net Cash Provided by (Used in) Operating Activities	83,424
INVESTING ACTIVITIES	
Purchase of property and equipment	(82,865)
Net Cash Provided by (Used in) Investing Activities	(82,865)
FINANCING ACTIVITIES	
Proceeds from notes payable	6,320
Payments on notes	(34,889)
Net Cash Provided by (Used in) Financing Activities	(28,569)
Net change in cash and cash equivalents	(28,010)
Cash and cash equivalents - beginning of year	$ 828,987
Cash and cash equivalents - end of year	$ 800,977
Interest paid	$ 6,674

The accompanying notes are an integral part of the financial statements

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 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.

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 specialized 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

<u>Basis of Accounting</u> – 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.

<u>Contributions</u> – 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.

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2. SIGNIFICANT ACCOUNTING POLICIES - Continued

Inventory – Inventory is reported at cost or, if donated, at fair market value at date of donation. 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.

Rental Properties – Rental property is carried at the original purchase price or fair market value at date of donation plus the cost of rehabilitation. Interest during the construction period is capitalized. Depreciation is recognized using the straight-line method over estimated useful lives of 40 years. HFH reviews its investment in real estate for impairments whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. No impairment loss was recognized in 2011.

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. HFH believes it is no longer subject to tax examination for the years prior to 2008.

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 $7,992 for the year ending June 30, 2012.

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. 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

As of June 30, 2012 there were no assets or liabilities requiring classification in any of the three levels discussed above.

The fair value of short-term financial instruments, including cash and cash equivalents, prepaid expenses, grants receivable, accrued expenses and accounts payable, approximates the carrying value in the accompanying financial statements due to the short maturity of such instruments.

The fair value of long-term liabilities approximates the carrying value in the accompanying financial statements based on current borrowing rates.

All methods of assessing fair value result in a general approximation of value and such value may not be realized.

5. MORTGAGES RECEIVABLE

Mortgage receivable consists 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 and 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 loses 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. Mortgage receivables as of June 30, 2012 were $4,797,258 and were valued net of amortization of $1,926,785 in the amount of $2,870,473 in 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, 2012:

	Cost	Accumulated Depreciation	Net Book Value
Land	$ 17,615	$ -	$ 17,615
Leashold Improvements	193,466	10,145	183,321
Building	75,106	22,914	52,192
Equipment	45,574	21,914	23,660
Vehicles	99,692	51,438	48,254
Total	$ 431,453	$ 106,411	$ 325,042

Depreciation expense in 2012 totaled $25,392.

7. NOTES PAYABLE

As of June 30, 2012, notes payable consisted of the following:

On June 11, 2007, HFH obtained a note from Habitat for Humanity International (loan no. 121054) which bears an interest rate of 0%. Monthly payments of $203 are required. The note matures on July 1, 2012 and is unsecured. The note has since been repaid.	$ 1,224
On July 9, 2007, HFH obtained a note from Habitat for Humanity International (loan no. 122016) which bears an interest rate of 0%. Monthly payments of $67 are required. The note matures on January 1, 2013 and is unsecured.	436

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7. NOTES PAYABLE - Continued

On February 21, 2008, HFH obtained a note from Habitat for Humanity International (loan no.123011) which bears an interest rate of 0%. Monthly payments of $135 are required. The note matures on January 1, 2013 and is unsecured.	1,640
On November 15, 2008, HFH obtained a note from Habitat for Humanity International (loan no.131079) which bears an interest rate of 0%. Monthly payments of $338 are required. The note matures on December 1, 2013 and is unsecured.	6,110
On October 8, 2010, HFH obtained a note from Habitat for Humanity International (loan no. 132034) which bears an interest rate of 0%. Monthly payments are not yet required. The note matures on January 1, 2017 and is unsecured.	30,000
On September 29, 2009, HFH obtained a note from Habitat for Humanity International (loan no. 151039) which bears an interest rate of 0%. Monthly payments of $364 are required. The note matures on December 29, 2017 and is unsecured.	15,316
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 are not yet required. The note	6,320
On April 1, 2009, HFH obtained a note from Habitat for Humanity International (Flexcap 09) which bears an interest rate of 5.30%. Monthly payments of $2,528.74 are required. The note matures on June 1, 2016 and is secured by a mortgage. As of June 30, 2012, the balance is $108,731 with a payment escrow deposit of $10,586.	98,145
Total	$ 159,191

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2013	$ 37,663
2014	40,364
2015	40,345
2016	30,167
2017	5,334
Thereafter	5,318
Total	$ 159,191

10. TEMPORARILY RESTRICTED NET ASSETS

Whirlpool Corporation made a $70,000 contribution in June 2012 for use in the following fiscal year.

11. SUBSEQUENT EVENTS

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

12. GRANTS RECEIVABLE

Grants receivable at June 30, 2012 consisted of the following:

Grantor/Program Title	Receivable 6/30/11	Grant Revenue 6/30/12	Collections 6/30/12	Grants Receivable 6/30/12
SHOP Grant	$ -	$ 172,973	$ 172,973	$ -
FHLB-HOP	10,000	70,000	75,000	5,000
City of Blomington HOME	30,000	170,840	200,840	-
Softwood Lumber	3,600	48,002	51,602	-
Other	-	13,191	2,598	10,593
Totals	$ 43,600	$ 475,006	$ 503,013	$ 15,593