HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

REPORT ON AUDIT OF FINANCIAL STATEMENTS

June 30, 2013

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

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Gauthier & Kimmerling, LLC
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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, 2013, 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, 2013, and the changes in its net assets and its 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 October 2, 2013, 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.

Gauthier + [illegible], LLC

October 2, 2013

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2013

ASSETS	
Cash	$ 894,329
Mortgages receivable	2,831,609
Grocery coupons unsold	2,028
Prepaid expenses	10,107
Flexcap note payable deposit (note 7)	3,000
Land held for development	616,261
Plant and equipment (note 6)	327,865
Total Assets	$ 4,685,199
LIABILITIES	
Accounts payable	$ 42,944
Accrued expenses	72,835
HUD shop notes payable (note 7)	82,496
Total Liabilities	198,275
NET ASSETS	
Unrestricted net assets	4,486,924
Total Net Assets	4,486,924
Total Liabilities and Net Assets	$ 4,685,199

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, 2013

	Unrestricted	Temporarily Restricted	Total
REVENUE AND SUPPORT			
Contributions	$ 791,097	$ -	$ 791,097
Grant revenue	588,739	-	588,739
Home sales (net of imputed interest)	596,188	-	596,188
Merchandise sales	482,518	-	482,518
Rental Income	5,959	-	5,959
Interest income	966	-	966
Miscellaneous income	25,084	-	25,084
	2,490,551	-	2,490,551
Net assets released from restriction	70,000	(70,000)	-
Total revenue and support	2,560,551	(70,000)	2,490,551
EXPENSES AND LOSSES			
Program services			
Habitat	1,779,313	-	1,779,313
ReStore	404,842	-	404,842
Total program services	2,184,155	-	2,184,155
Management and administrative	34,059		34,059
Fundraising	99,787	-	99,787
Total expenses and losses	2,318,001	-	2,318,001
Change in net assets	242,550	(70,000)	172,550
Net assets - beginning of year	4,244,374	70,000	4,314,374
Net assets - end of year	$ 4,486,924	$ -	$ 4,486,924

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2013

	Program Services					
	Habitat	Restore	Total Program Services	Management and Administrative	Fundraising	Total
Salaries and wages	$ 383,970	$ 159,928	$ 543,898	$ 18,609	$ 57,804	$ 620,311
Payroll taxes	28,167	18,293	46,460	1,579	4,597	52,636
Employee benefits	11,269	2,225	13,494	466	1,562	15,522
Temporary help	24,639	6,675	31,314	1,077	3,514	35,905
Computer support	19,439	2,795	22,234	769	2,638	25,641
Cost of homes sold	1,010,356	-	1,010,356	-	-	1,010,356
Construction supplies	5,686	-	5,686	-	-	5,686
Dues and memberships	-	700	700	-	-	700
Advertising	-	6,540	6,540	-	-	6,540
Rental expense	-	63,055	63,055	-	8,851	71,906
Insurance	32,677	11,497	44,174	1,456	2,908	48,538
Mortgage sevice & bank fees	26,988	-	26,988	900	2,099	29,987
Office supplies	1,834	2,572	4,406	143	225	4,774
Interest expense	2,557	-	2,557	85	199	2,841
Postage	10,793	78	10,871	362	842	12,075
Printing	9,638	477	10,115	336	765	11,216
Professional fees	46,343	-	46,343	1,545	3,604	51,492
Taxes	2,031	-	2,031	68	158	2,257
Repairs and maintenance	5,308	43,294	48,602	1,559	1,795	51,956
Travel	15,895	9,444	25,339	831	1,538	27,708
Utilities	7,385	17,899	25,284	817	1,146	27,247
Telephone	898.000	11,157	12,055	388	426	12,869
Training	4,019	1,955	5,974	196	375	6,545
Vehicle expense	13,570	6,772	20,342	668	1,272	22,282
Contributions	87,500	-	87,500	-	-	87,500
Depreciation	12,002	38,675	50,677	1,634	2,168	54,479
Bank Service Fees	7,090	-	7,090	236	551	7,877
Other Expenses	9,259	811	10,070	335	750	11,155
Total	$ 1,779,313	$ 404,842	$ 2,184,155	$ 34,059	$ 99,787	$ 2,318,001

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, 2013

CASH FLOWS FROM OPERATING ACTIVTIES	
Change in net assets	$ 172,550
Adjustments to reconcile change in net assets	
Depreciation	54,479
Decrease in grants receivable	15,593
Decrease in mortgage receivable	38,864
Decrease in prepaid expense	719
Increase in land held for development	(44,426)
Decrease in accounts payable	(29,521)
Increase in accrued expense	22,091
Net Cash Provided by (Used in) Operating Activities	230,349
INVESTING ACTIVITIES	
Purchase of property and equipment	(57,302)
Net Cash Provided by (Used in) Investing Activities	(57,302)
FINANCING ACTIVITIES	
Proceeds from notes payable	36,924
Payments on notes	(116,619)
Net Cash Provided by (Used in) Financing Activities	(79,695)
Net change in cash and cash equivalents	93,352
Cash and cash equivalents - beginning of year	$ 800,977
Cash and cash equivalents - end of year	$ 894,329
Interest paid	$ 2,841

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

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 – 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 2013.

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 2009.

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 $6,540 for the year ending June 30, 2013.

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, 2013 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, 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

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 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. Mortgages receivable as of June 30, 2013 were $4,804,601 and were valued net of amortization of $1,978,879 in the amount of $2,831,609 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, 2013:

	Cost	Accumulated Depreciation	Net Book Value
Land	$ 17,615	$ -	$ 17,615
Leashold Improvements	237,829	18,510	219,319
Building	75,106	24,792	50,314
Equipment	39,179	29,741	9,438
Vehicles	106,087	74,908	31,179
Total	$ 475,816	$ 147,951	$ 327,865

Depreciation expense in 2013 totaled $54,479.

7. NOTES PAYABLE

As of June 30, 2013, 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 are not yet required. The note matures on September 1, 2021 and is unsecured.	$ 36,924
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 matured on January 1, 2013 and was repaid.	-

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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 was repaid.	-
On November 15, 2008, HFH obtained a note from Habitat for Humanity International (note 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.	2,054
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 are not yet required. The note matures on January 1, 2017 and is unsecured.	26,250
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.	10,948
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 matures on December 29, 2019 and is unsecured.	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, 2013, the balance is $0 with a payment escrow deposit of $3,000.	-
Total	$ 82,496

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2014	$ 13,922
2015	13,452
2016	12,065
2017	14,565
2018	10,799
Thereafter	17,693
Total	$ 82,496

8. 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.