

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

**REPORT ON AUDIT OF
FINANCIAL STATEMENTS**

June 30, 2014

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

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Independent Auditors' Report

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

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Monroe County, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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, 2014, 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 November 26, 2014, 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.

Sanchez & Kennedy, LLC

November 26, 2014

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF FINANCIAL POSITION
JUNE, 30, 2014

ASSETS

Cash	\$ 1,099,258
Mortgages receivable	3,215,403
Prepaid expenses	10,826
Flexcap note payable deposit (note 7)	3,000
Land held for development	595,316
Plant and equipment (note 6)	<u>271,905</u>
 Total Assets	 <u>\$ 5,195,708</u>

LIABILITIES

Accounts payable	\$ 71,687
Accrued expenses	58,967
HUD shop notes payable (note 7)	<u>68,574</u>
 Total Liabilities	 <u>199,228</u>

NET ASSETS

Unrestricted net assets	<u>4,996,480</u>
 Total Net Assets	 <u>4,996,480</u>
 Total Liabilities and Net Assets	 <u>\$ 5,195,708</u>

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

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2014

	Unrestricted	Temporarily Restricted	Total
<u>REVENUE AND SUPPORT</u>			
Contributions	\$ 929,774	\$ -	\$ 929,774
Grant revenue	504,575	-	504,575
Home sales (net of imputed interest)	873,263	-	873,263
Merchandise sales	578,201	-	578,201
Rental Income	337	-	337
Interest income	1,296	-	1,296
Miscellaneous income	26,419	-	26,419
	2,913,865	-	2,913,865
Net assets released from restriction	-	-	-
Total revenue and support	2,913,865	-	2,913,865
<u>EXPENSES AND LOSSES</u>			
Program services			
Habitat	1,852,380	-	1,852,380
ReStore	386,375	-	386,375
Total program services	2,238,754	-	2,238,754
Management and administrative	36,178	-	36,178
Fundraising	129,376	-	129,376
Total expenses and losses	2,404,309	-	2,404,309
Change in net assets	509,556	-	509,556
Net assets - beginning of year	4,486,924	-	4,486,924
Net assets - end of year	\$ 4,996,480	\$ -	\$ 4,996,480

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

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2014

	Program Services			Management and Administrative	Fundraising	Total
	Habitat	Restore	Total Program Services			
Salaries and wages	\$ 369,916	\$ 173,955	\$ 543,872	\$ 18,577	\$ 56,769	\$ 619,217
Payroll taxes	38,105	18,590	56,694	1,935	5,884	64,514
Employee benefits	58,721	12,654	71,375	2,462	8,201	82,038
Temporary help	33,689	-	33,689	1,175	4,309	39,173
Computer support	14,426	2,745	17,171	593	1,994	19,758
Cost of homes sold	1,878	-	1,878	-	-	1,878
Construction supplies	992,823	-	992,823	-	-	992,823
Dues and memberships	-	1,100	1,100	-	-	1,100
Advertising	6,879	7,454	14,333	-	-	14,333
Rental expense	-	63,074	63,074	-	30,078	93,152
Insurance	19,172	11,224	30,395	997	1,849	33,242
Mortgage sevice & bank fees	11,608	-	11,608	387	903	12,898
Office supplies	8,107	3,167	11,274	371	732	12,377
Interest expense	22	-	22	1	2	24
Postage	7,841	316	8,157	271	620	9,048
Printing	9,360	2,549	11,909	393	809	13,112
Professional fees	33,753	7,301	41,054	1,358	2,858	45,270
Taxes	2,506	8,807	11,312	365	476	12,153
Repairs and maintenance	3,028	12,334	15,361	495	629	16,485
Travel	22,681	1,794	24,474	813	1,821	27,109
Utilities	8,960	27,686	36,645	1,182	1,580	39,408
Training	9,432	1,053	10,485	348	767	11,600
Vehicle expense	9,995	11,554	21,548	702	1,146	23,396
Contributions	95,100	-	95,100	-	-	95,100
Depreciation	31,255	16,886	48,141	1,581	2,970	52,692
Bank Service Fees	6,223	-	6,223	207	484	6,914
Other Expenses	56,903	2,134	59,036	1,965	4,494	65,495
Total	<u>\$ 1,852,380</u>	<u>\$ 386,375</u>	<u>\$ 2,238,754</u>	<u>\$ 36,178</u>	<u>\$ 129,376</u>	<u>\$ 2,404,309</u>

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, 2014

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 509,556
Adjustments to reconcile change in net assets	
Depreciation	52,692
Decrease in grocery coupons	2,028
Increase in mortgage receivable	(383,794)
Increase in prepaid expense	(719)
Decrease in land held for development	37,272
Increase in accounts payable	28,743
Decrease in accrued expense	<u>(13,868)</u>
Net Cash Provided by (Used in) Operating Activities	<u>231,910</u>

INVESTING ACTIVITIES

Purchase of property and equipment	<u>(13,059)</u>
Net Cash Provided by (Used in) Investing Activities	<u>(13,059)</u>

FINANCING ACTIVITIES

Payments on notes payable	<u>(13,922)</u>
Net Cash Provided by (Used in) Financing Activities	<u>(13,922)</u>
Net change in cash and cash equivalents	204,929
Cash and cash equivalents - beginning of year	<u>894,329</u>
Cash and cash equivalents - end of year	<u>\$ 1,099,258</u>
Interest paid	<u>\$ 24</u>

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

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.
NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED JUNE 30, 2014

1. NATURE OF OPERATIONS

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

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

In addition to home building activities, HFH also operated a retail thrift operation (dba ReStore). ReStore 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.

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2. SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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

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 2014.

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 2010.

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 \$14,333 for the year ending June 30, 2014.

3. CASH AND CASH EQUIVALENTS

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

HFH maintains its cash in bank accounts which, at times, may exceed federally insured limits. Approximately \$82,000 of excess deposits existed as of June 30, 2014. 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, 2014 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 receivables and 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 losses is zero. HFH has had historical success in collecting and makes every effort for homebuyers to arrange repayment even when experiencing financial difficulties. HFH also believes the homes securing the notes are sufficient collateral to not experience loan losses. Mortgages receivable as of June 30, 2014 were \$5,449,890 and were valued, net of present value amortization of \$2,234,487, at \$3,215,403 on the statement of financial position.

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

6. PROPERTY AND EQUIPMENT

HFH's property and equipment consisted of the following at June 30, 2014

	Cost	Accumulated Depreciation	Net Book Value
Leashold Improvements	\$ 237,829	\$ 38,898	\$ 198,931
Building	75,106	26,670	48,436
Equipment	36,493	34,132	2,361
Vehicles	116,198	94,021	22,177
Total	<u>\$ 465,626</u>	<u>\$ 193,721</u>	<u>\$ 271,905</u>

Depreciation expense in 2014 totaled \$52,692.

7. NOTES PAYABLE

As of June 30, 2014, 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. The outstanding balance as of June 30, 2014 is \$36,924.

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. The outstanding balance as of June 30, 2014 is \$18,750.

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7. NOTES PAYABLE - Continued

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. The outstanding balance as of June 30, 2014 is \$6,580.

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. The outstanding balance as of June 30, 2014 is \$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 were required. The note was repaid in 2013 and was secured by a mortgage. As of June 30, 2014 a payment escrow deposit of \$3,000 remains and is included in Flexcap note payable deposit.

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2015	\$ 13,452
2016	12,065
2017	14,565
2018	10,799
2019	9,231
Thereafter	<u>8,462</u>
Total	<u>\$ 68,574</u>

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.