

**HABITAT FOR HUMANITY
OF EVANSVILLE, INC.**

FINANCIAL STATEMENTS

Year Ended June 30, 2012

(With Independent Auditors' Report Thereon)

CONTENTS

	<u>Pages</u>
Independent Auditors' Report	1
Financial Statements:	
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Statement of Functional Expenses	5
Notes to Financial Statements	6 - 12



INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity of Evansville, Inc.

We have audited the accompanying statement of financial position of Habitat for Humanity of Evansville, Inc. (a nonprofit organization) 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 the Organization'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. 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 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 Habitat for Humanity of Evansville, Inc. 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.

Evansville, Indiana
September 27, 2012

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2012

ASSETS

Current assets:

Cash	\$	211,889
Houses available for sale		55,257
Construction in process		177,066
Land held for development		499,453
Mortgages receivable, current		633,353
Other current assets		24,769

Total current assets 1,601,787

Other assets:

Mortgages receivable, net		3,898,661
Investment in joint venture		2,356,461
Intangible assets, net		146,355
Property and equipment, net		39,981

Total other assets 6,441,458

Total assets \$ 8,043,245

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$	81,355
Accrued expenses		36,621
Other current liabilities		4,575

Total current liabilities 122,551

Long-term debt 3,143,108

Total liabilities 3,265,659

Net assets:

Unrestricted		4,763,161
Temporarily restricted		14,425

Total net assets 4,777,586

Total liabilities and net assets \$ 8,043,245

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2012

Unrestricted net assets:

Revenues:

Sales to homeowners	\$ 969,800
Contributions and grants	977,226
In-kind donations	103,894
Mortgage discount amortization	333,887
Interest	690
Miscellaneous income	<u>15,907</u>

Total revenues 2,401,404

Net assets released from restrictions 4,400

Total revenues and support 2,405,804

Expenses:

Program service:

Cost of homes sold	2,754,045
Other program costs	313,506
General and administrative	202,903
Fundraising	<u>190,084</u>

Total expenses 3,460,538

Decrease in unrestricted net assets (1,054,734)

Temporarily restricted net assets:

Net assets released from restrictions (4,400)

Decrease in temporarily restricted net assets (4,400)

Decrease in net assets (1,059,134)

Net assets, beginning of year, as previously reported 6,558,220

Adjustment for overstatement of net assets, as discussed in Note 12 (721,500)

Net assets, beginning of year, as restated 5,836,720

Net assets, end of year \$ 4,777,586

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2012

Cash flows from operating activities:	
Decrease in net assets	\$ (1,059,134)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Depreciation and amortization	29,727
Origination of mortgages	(956,200)
Mortgage discount	528,976
Mortgage discount amortization	(333,887)
Donated property and equipment	(26,313)
Decrease (increase) in assets:	
Houses available for sale	78,748
Construction in process	387,523
Land held for development	79,674
Other current assets	14,356
Increase (decrease) in liabilities:	
Accounts payable	(44,283)
Accrued expenses	(10,031)
Other current liabilities	(4,555)
Net cash used in operating activities	<u>(1,315,399)</u>
Cash flows from investing activities:	
Redemption of certificates of deposit	100,576
Principal collected on mortgages	663,502
Distribution from joint venture	23,771
Net cash provided by investing activities	<u>787,849</u>
Net decrease in cash	(527,550)
Cash, beginning of year	<u>739,439</u>
Cash, end of year	<u><u>\$ 211,889</u></u>
Supplemental disclosure of cash flow information:	
Interest paid	<u><u>\$ 23,775</u></u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2012

	Program Service		General & Admin.	Fund- raising	Total
	Cost of Homes Sold	Other Program Costs			
Building costs	\$ 1,764,325	\$ -	\$ -	\$ -	\$ 1,764,325
Mortgage discount	528,976	-	-	-	528,976
Salaries	297,366	-	83,850	90,849	472,065
Employee benefits	140,337	-	16,466	31,384	188,187
Advertising	-	-	-	6,374	6,374
Amortization	-	20,617	-	-	20,617
Bank charges	-	17,156	1,491	-	18,647
Contributions	-	46,013	-	-	46,013
Depreciation	-	4,587	4,523	-	9,110
Insurance	-	4,299	20,648	-	24,947
Interest	-	23,775	-	-	23,775
Miscellaneous	-	23,571	2,719	6,259	32,549
Mortgage servicing	-	38,952	-	-	38,952
Office	-	10,429	13,877	-	24,306
Payroll taxes	23,041	-	6,281	6,757	36,079
Printing & postage	-	2,914	1,426	33,275	37,615
Professional fees	-	42,585	25,526	12,391	80,502
Rent	-	22,200	9,000	-	31,200
Repairs & maintenance	-	19,350	-	-	19,350
Supplies	-	1,426	-	-	1,426
Telephone	-	7,065	3,139	-	10,204
Travel & education	-	12,475	4,930	2,795	20,200
Uncollectible accounts	-	1,985	-	-	1,985
Utilities	-	5,144	1,607	-	6,751
Volunteer	-	8,963	7,420	-	16,383
	<u>\$ 2,754,045</u>	<u>\$ 313,506</u>	<u>\$ 202,903</u>	<u>\$ 190,084</u>	<u>\$ 3,460,538</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

1. **Organization and Summary of Significant Accounting Policies**

Nature of Organization

Habitat for Humanity of Evansville, Inc. (Habitat) was founded in 1984 as a not-for-profit organization. Habitat's mission is to build safe, decent and affordable houses with low-income families in partnership with God's people in need in Vanderburgh and Posey counties in Indiana. Habitat is an affiliate of Habitat for Humanity International, Inc. (HFHI), a Christian not-for-profit organization that seeks to eliminate poverty housing from the world and to make decent shelter a matter of conscience and action. Although HFHI assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat builds houses utilizing volunteer labor and donated materials, in addition to paid services and materials. The houses are sold to qualified homebuyers at no profit with non-interest-bearing mortgages. Prospective homeowners must have a need for housing, the ability to pay the mortgage, and are required to participate in the construction of homes.

Basis of Presentation

Habitat reports 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.

Cash and Cash Equivalents

Habitat considers all highly liquid investments with an original maturity of 90 days or less to be cash equivalents.

Promises to Give

Contributions are recognized when a donor makes a promise to give to Habitat that is, in substance, unconditional. Unconditional promises to give expected to be collected within one year are recorded at net realizable value. Unconditional promises to give expected to be collected in more than one year are recorded at the present value of their net realizable value.

Management utilizes the allowance method to determine uncollectible promises to give. The allowance is based on historical collection experience and management's analysis of specific promises to give.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

1. **Organization and Summary of Significant Accounting Policies, Continued**

Houses Available for Sale and Land Held for Development

Houses available for sale represent the cost of homes that Habitat has received from a qualifying family due to foreclosure on the mortgage. Land held for development is stated at cost and includes land under development, developed lots, and capitalized property taxes and other costs incurred for development. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable.

Construction In Process

Costs incurred in conjunction with home construction are capitalized as construction in process. Capitalized construction costs are expensed when ownership transfers to the homeowners. Any post-settlement costs are expensed as incurred.

Intangible Assets

The Organization incurred structuring fee costs for the investment in the joint venture and closing costs for the loan to finance the investment in joint venture and construction costs in 2011. The structuring fee is being amortized over seven years and the closing costs are being amortized over fifteen years.

Property and Equipment

Property and equipment are recorded at cost. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. Acquisitions of property and equipment in excess of \$500 and with estimated useful lives in excess of one year are capitalized.

Donated furniture and equipment are recorded as contributions at their estimated values at the date of receipt. If donors stipulate a time period during which the assets must be used, the contributions are recorded as temporarily restricted support. In the absence of such stipulations, contributions of property and equipment are recorded as unrestricted support.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

1. **Organization and Summary of Significant Accounting Policies, Continued**

Mortgages Receivable

Mortgages receivable consist of non-interest-bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Mortgages have an original maturity of 20 to 25 years and arise in connection with Habitat's home building initiatives. Mortgages are discounted based on prevailing market rates for low income housing at the inception of mortgages, as provided by Habitat for Humanity International, Inc., and range from 7.5% to 9%. Discounts are amortized using the straight-line method over the term of the mortgages.

Mortgages receivable are considered delinquent when they are 90 days late. Management feels no allowance for doubtful accounts is required because Habitat is a secured creditor and the fair market value of the houses generally are in excess of the related mortgage note balances.

Investment in Joint Venture

Habitat's investment in a joint venture is accounted for on the cost basis since Habitat is not able to influence the operating and financial policies of the joint venture. Accordingly, distributions received from the joint venture are reported as a return of investment.

Sales to Homeowners

Revenues are recognized when houses are completed and a signed mortgage is received by Habitat. Sales to homeowners are recorded at the gross mortgage amount plus down payments received.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and nature of any donor restrictions. Contributions that are restricted by donors are reported as increases in unrestricted net assets if the restrictions expire in the same reporting period. All other restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restrictions. When restrictions expire (that is, when a stipulated time restriction ends or a purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

1. Organization and Summary of Significant Accounting Policies, Continued

Donated Services and Materials

Donated services are not recognized as contributions unless the services create or enhance the value of a non-financial asset, require specialized skills which are provided by individuals possessing those skills, and would typically need to be purchased. Habitat recognized \$24,550 in donated services for the year ended June 30, 2012. However, a substantial number of volunteers donate significant amounts of their time to Habitat, but the value of these services is not reflected in the financial statements, as it does not meet the criteria for recognition. Donated materials consist primarily of construction materials. Habitat recognized \$53,123 in donated materials for the year ended June 30, 2012.

Functional Allocation of Expenses

The costs of providing various services and activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Advertising

Advertising costs are expensed as incurred.

Use of Estimates

The preparation of financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

2. Mortgages Receivable

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

Mortgages receivable – current	\$ 633,353
Mortgages receivable – long-term	<u>9,182,221</u>
Total mortgages receivable	9,815,574
Less discount to net present value	<u>(5,283,560)</u>
Mortgages receivable, net	<u>\$ 4,532,014</u>

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

3. Investment in Joint Venture

In 2011, Habitat participated in a New Market Tax Credit (NMTC) transaction. The program provides tax credits to eligible organizations for making a “qualified low-income community investment.” Tax credit recapture is required if compliance requirements are not met over a seven-year period. Habitat recorded its 25.7% investment in HFHI-SA Leverage VII, LLC at a cost of \$2,386,637 and was able to secure a 15 year loan in the amount of \$3,143,108 (see Note 6). Investment in the joint venture was \$2,356,461 at June 30, 2012.

In February 2018, HFHI-SA Investment Fund V, LLC (the Fund), and the upstream effective owner of HFHI-SA NMTC V, LLC (holder of the promissory note due from Habitat) is expected to exercise its put option. Under the terms of the put option agreement, HFHI-SA Leverage VII, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the Fund.

4. Intangible Assets

Intangible assets consisted of the following at June 30, 2012:

Cost:	
Structuring fee	\$ 118,495
Closing costs	55,350
	<u>173,845</u>
Less accumulated amortization:	
Structuring fee	(22,570)
Closing costs	(4,920)
	<u>(27,490)</u>
Intangible assets, net	<u>\$ 146,355</u>

5. Property and Equipment

Property and equipment consisted of the following at June 30, 2012:

Office equipment	\$ 51,114
Construction equipment	<u>64,806</u>
Total cost	115,920
Accumulated depreciation	<u>(75,939)</u>
Property and equipment, net	<u>\$ 39,981</u>

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

6. Long-Term Debt

Long term debt consisted of \$3,143,108 due to HFHI-SA NMTC V, LLC, in conjunction with Habitat's participation in NMTC (see Note 3). Debt requires interest only payments until June 5, 2018 at .756432%. The loan matures on February 24, 2026. The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. Debt has a put option feature that is exercisable March 6, 2018.

7. Related Party Leases

The Organization leases office and warehouse space from a related party under a noncancelable operating lease agreement, which expires December 2015. Total rent expense was \$31,200 for the year ended June 30, 2012.

Future minimum lease payments are as follows for the years ended December 31:

2013	\$	31,200
2014		31,200
2015		31,200
2016		<u>15,600</u>
	\$	<u>109,200</u>

8. Restricted Net Assets

Temporarily restricted net assets consisted of \$14,425 at June 30, 2012 to be used for special needs modifications to homes. Net assets in the amount of \$4,400 were released from restrictions upon satisfaction of these restrictions during the year ended June 30, 2012.

9. Income Taxes

The Organization is exempt from income taxes as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The Organization believes that it has support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the financial statements.

The Organization's Forms 990, *Return of Organization Exempt from Income Tax*, for the years ending 2009, 2010, 2011, and 2012 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2012

10. Retirement Plan

Habitat maintains a Simple IRA defined contribution plan covering substantially all of its employees. Habitat matches employee contributions up to three percent of eligible wages. Total contributions to this plan were \$10,960 for the year ended June 30, 2012.

11. Transactions with Affiliate

Habitat remits a portion of its contributions to HFHI annually. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$46,013 to HFHI for the year ended June 30, 2012. These amounts are included in program services in the statement of activities.

12. Prior Period Adjustment

As a result of an internal review of Habitat's construction in process and deferred revenue during 2012, Habitat discovered that construction in process had been overstated by \$833,500 and deferred revenue had been overstated by \$112,000 at June 30, 2011. Accordingly, Habitat restated its results for the affected year. The net effect of the restatement was to decrease the change in unrestricted net assets for 2011 by \$721,500.

13. Concentrations of Credit Risk

Financial instruments that potentially subject the Habitat to credit risk consist principally of cash on deposit at financial institutions and mortgage receivable. Cash in banks may, at times, exceed federal deposit insurance limits. Habitat's attempts to minimize this risk by using high-credit quality financial institutions. Mortgages receivable are secured by the property purchased.

14. Subsequent Events

The Organization has evaluated subsequent events through September 27, 2012, the date the financial statements were available to be issued.