



**AUDITED FINANCIAL STATEMENTS**

**JUNE 30, 2011**

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

## **Table of Contents**

	<b>PAGE</b>
Independent Accountant's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Cash Flows	4
Statement of Functional Expenses	5
Notes to Financial Statements	6-11

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## **INDEPENDENT AUDITOR'S 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, 2011, 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, 2011, 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.

  
Vision Accounting & Financial Services, PC.

September 26, 2011

**Habitat for Humanity of Evansville, Inc.**  
**Statement of Financial Position**  
June 30, 2011

	<u>06/30/11</u>
<b>ASSETS</b>	
Current Assets	
Cash and Equivalents - Unrestricted	\$ 720,614
Cash and Equivalents - Restricted	18,825
Investments	100,576
Inventory(Cost)	9,752
Houses Available for Sale	134,005
Construction in Process	1,398,169
Land Held for Development(Cost)	561,727
Deposits	29,373
Current Maturities Mortgages	617,861
	<u>3,590,902</u>
Total Current Assets	\$ 3,590,902
Non Current Assets	
Equipment & Furniture-Net	\$ 40,178
Mortgage Receivables-Net	3,816,544
Intangible Assets-Net	325,349
Investment in HFHI-SA	2,380,232
Total Non Current Assets	<u>\$ 6,562,303</u>
<b>TOTAL ASSETS</b>	<b>\$ 10,153,205</b>
 <b>LIABILITIES &amp; NET ASSETS</b>	
Current Liabilities	
Accounts Payable & Accrued Expenses	\$ 125,747
Deposits	9,130
Deferred Revenue	270,457
Accrued Interest	1,981
Escrow Payable-Mortgage	44,562
Total Current Liabilities	<u>\$ 451,877</u>
Non Current Liabilities	
Notes Payable QLICI	\$ 3,143,108
Net Assets	
Net Assets Temporarily Restricted	\$ 18,825
Net Assets Unrestricted	6,539,395
	<u>6,558,220</u>
Total Equity	\$ 6,558,220
<b>TOTAL LIABILITIES &amp; EQUITY</b>	<b>\$ 10,153,205</b>

See Independent Auditors Report.

**Habitat for Humanity of Evansville, Inc.**  
**Statement of Functional Expenses**  
For the Year Ended June 30, 2011

	<b>Program Services</b>	<b>Supporting Services</b>		
	Housing & Finance	Management and General	Fundraising	Total Supporting Services
Building Transfer Costs	\$1,953,141	\$ -	\$ -	\$ -
Salaries	260,529	91,229	80,540	171,769
Auto & Travel	8,115	-	2,085	2,085
Credit Reports & Bank Charges	2,660	11,464	-	11,464
Depreciation & Amortization	26,088	8,767	-	8,767
Employee Benefits	119,095	18,017	31,081	49,098
Insurance	16,255	5,252	-	5,252
Consulting & Professional	67,961	9,757	10,031	19,788
Other	17,496	4,280	-	4,280
Communications	7,346	2,919	-	2,919
Office Supplies/Software	3,805	13,531	5,367	18,898
Payroll Taxes	21,891	7,580	6,149	13,729
Postage & Delivery	2,032	1,118	1,655	2,773
Interest Expense	8,387	-	-	-
Advertising & Promotions	-	-	6,624	6,624
Rent	9,000	9,000	-	9,000
Repairs & Maintenance	799	889	-	889
Tithe/Contributions	69,263	-	-	-
Training/Education	-	6,093	-	6,093
Volunteer	-	6,318	-	6,318
Utilities	2,487	1,740	-	1,740
Newsletter/Direct Mail	-	-	25,554	25,554
	<u>\$2,596,350</u>	<u>\$ 197,954</u>	<u>\$ 169,086</u>	<u>\$ 367,040</u>

See Independent Auditors Report.

**Habitat for Humanity of Evansville, Inc.**  
**Statement of Activities and Changes in Net Assets**  
For the Year Ended June 30, 2011

**Unrestricted & Restricted Revenue**

*Unrestricted revenues and gains*

Transfers to homeowners	\$	986,000
Grants		581,318
Donations-In-Kind		46,001
Contributions		1,764,453
Other Income		118,793
Interest Income		324,243

**Total unrestricted revenue and gains** \$ 3,820,808

Expenses

*Program services*

Housing & finance \$ 2,596,350

*Supporting services*

Fundraising 169,086

Management and general 197,954

Total supporting services 367,040

**Total expenses** \$ 2,963,390

**Change in net assets** 857,418

**Net assets at beginning of year** 5,700,802

**Net assets at end of year** \$ 6,558,220

See Independent Auditors Report.

**Habitat for Humanity of Evansville, Inc.**  
**Statement of Cash Flows**  
For the Year Ended June 30, 2011

<b>Cash Flows From Operating Activities</b>	
Increase (Decrease) in net assets	\$ 868,467
Adjustments to reconcile increase (decrease) in net assets to net cash provided by operating activities:	
Deferred Revenue From Sale of Homes	(64,137)
Depreciation & Amortization	23,806
Imputed Interest From Non Interest Bearing Mortgages	(317,018)
Discount on Mortgages	736,906
(Increase) decrease in operating assets:	
Houses Available for Sale	(77,309)
Deposits	(29,373)
Construction in Process	(1,318,598)
Inventory	(2,389)
Prepaid Expenses	13,626
Land Held for Development	(27,117)
Mortgage Receivables	(131,977)
Increase (decrease) in operating liabilities:	
Accounts payable & accrued expenses	30,692
Deposits	9,130
Deferred Revenue	270,457
Accrued Interest	1,981
Escrow - mortgages	(4,272)
Net Cash Provided by Operations	<u>\$ (17,125)</u>
<b>Cash Flows From Investing Activities:</b>	
Investments	(2,364,397)
Capital Expenditures	(359,622)
Net Cash Used in Investing Activities	<u>(2,724,019)</u>
<b>Cash Flows From Financing Activities:</b>	
Notes Payable	<u>3,143,108</u>
Net Cash (used) Provided in Financing Activities	3,143,108
<b>Net Increase (Decrease) in Cash</b>	<b>401,964</b>
<b>Cash- Beginning of Year</b>	<u>337,475</u>
<b>Cash- End of Year</b>	<u>\$ 739,439</u>
<b>Supplemental Disclosure of Cash Flow Information:</b>	
Cash Paid for Interest During the Year	<u>\$ 6,406</u>

See Independent Auditors Report.

**HABITAT FOR HUMANITY OF EVANSVILLE, INC**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 1 - ORGANIZATION AND PURPOSE**

Nature of Organization and Purpose

Habitat for Humanity of Evansville, Inc. is a nondenominational Christian not-for-profit organization whose purposes are to partner with specific domestic and international Habitat programs by constructing modest but adequate housing, they also associate with other organizations functioning with purposes consistent with those of Habitat. Habitat's goal is to eliminate poverty housing and homelessness worldwide and to stir the hearts and minds of others to take action on this issue.

Habitat's mission is fulfilled primarily through the efforts of volunteers and operates in Vanderburgh and Posey County.

Habitat is exempt from federal income taxation under Section 501(a) as an organization described in Section 501 c (3) of the Internal Revenue Code of 1986, as amended, pursuant to a group exemption letter received from the Internal Revenue Service.

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

Basis of Accounting

The accompanying financial statements are prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America.

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recongnized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets based on the nature of the restriction. When the restriction expires or its conditions have been satisfied, restricted assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Promises to Give

Contributions are recognized when the donor makes a promise to give to the organization that is, in substance, unconditional. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give in subsequent years are reported at the present value of their net realizable value.

See Independent Auditor's Report



**HABITAT FOR HUMANITY OF EVANSVILLE, INC**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont.)**

The organization uses the allowance method to determine uncollectible unconditional promises receivable. The allowance is based on prior years' experience and management's analysis of specific promises made.

Cash and Equivalents

For purposes of the statement of cash flows, the Company considers all short-term debt securities purchased with a maturity of three months or less to be cash equivalents.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributed Services

Numerous volunteers have donated significant amounts of their time in the organization's program services and its fund raising campaigns. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, provided by individuals possessing those skills, which would otherwise need to be purchased, if not provided by donation, are recognized as revenue and expense. Such amounts are included in the accompanying statements of activities and changes in net assets.

Donated Goods

Donated materials are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to specific purpose.

Investments

Short-term investments are carried at lower of cost or market and have a maturity greater than three months.

Investments Consisted of the Following at 6/30/2011:

	<u>Market Value</u>
Certificate of Deposit	\$ 100,576

See Independent Auditor's Report

**HABITAT FOR HUMANITY OF EVANSVILLE, INC**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)**

**Property and Equipment**

Property and equipment are carried at cost. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. When assets are retired or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period. The cost of maintenance and repairs is charged to expense as incurred; significant renewals and betterments are capitalized. Any donated property and equipment is carried at its fair market value.

**Revenue Recognition**

Revenues are recognized when homes are completed and a signed mortgage is received by Habitat for Humanity of Evansville, Inc.

**Transfer to Homeowners**

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives the mortgages. Non interest bearing mortgages have discounted at various interest rates ranging from 6% to 9%. Discounts are amortized using the straight-line method over the lives of the mortgages.

**NOTE 3 - 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. The mortgages have an original maturity of twenty (20) to thirty (25) years and arise in connection with Habitat's homebuilding initiatives.

Long-term mortgages receivable at June 30, 2011 are as follows:

	<u>Total</u>	<u>June 30, 2011</u> <u>Current</u>	<u>Long-Term</u>
Mortgages receivable	9,487,855	582,840	8,905,015
Less unamortized discount	<u>5,088,471</u>	<u>-</u>	<u>5,088,471</u>
Mortgages receivable - net	<u>4,399,384</u>	<u>582,840</u>	<u>3,816,544</u>

**NOTE 4 - PAYMENT TO NATIONAL AFFILIATES**

The goal of Habitat for Humanity of Evansville, Inc. is to contribute to affiliates in Botswana and Jordan, it gave \$40,500 through June 30, 2011.

**NOTE 5 DEFERRED REVENUE**

Deferred revenue is recognized when the corresponding house or land is sold.

See Independent Auditor's Report

**HABITAT FOR HUMANITY OF EVANSVILLE, INC**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 6 - PROPERTY AND EQUIPMENT**

At June 30, 2011 property and equipment consisted of the following:

	June 30, 2011	
	<u>Cost</u>	<u>Accumulated Depreciation/ Amortization</u>
Office Equipment	\$ 54,232	\$ 38,323
Construction Equipment	\$ 62,136	\$ 37,867
	\$ 116,368	\$ 76,190

**NOTE 7 - INTANGIBLE ASSETS**

At June 30, 2011 intangible assets consisted of the following:

Affiliate Guaranty Fee	\$ 166,296	\$ 7,919
HFHI CDE Structuring Fee	\$ 118,495	\$ 5,643
NMTC Closing Costs	\$ 55,350	\$ 1,230
	\$ 340,141	\$ 14,792

**NOTE 8 - HOUSES FOR SALE**

Houses for sale represents the cost of homes that Habitat for Humanity of Evansville, Inc. has received from a qualifying family or has foreclosed on the mortgage.

**NOTE 9 - LEASES**

Habitat leases its office space from Ocnad Investments, LLC. with an expiration date of December 31, 2015, and monthly rents at \$2,600.00 per month. The total rent expensed for the year ended June 30, 2011 was \$31,200.

**NOTE 10 - CONCENTRATIONS OF CREDIT RISK**

Habitat maintains its cash balances in various financial institutions accounts. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. Habitat currently has balances in excess of the insured amount of \$141,147 at June 30, 2011. Habitat's concentration of credit risk with respect to mortgage loans receivable depends on its partner families' ability to repay, which varies with economic conditions in this geographic area.

**NOTE 11 - OTHER MORTGAGE RECEIVABLE INFORMATION**

In 1994, Habitat for Humanity of Evansville, Inc. began issuing second mortgages on homes they sold to qualifying families. The second mortgage was designed to discourage mortgagees from selling properties in the first 10 years, due to the market value exceeding the value of the first mortgage.

The organization believes that early termination gains are remotely possible and would represent immaterial gain, so therefore no gain or loss has been included in the financial statements nor its potential impact on them estimated.

**NOTE 12 - LETTER OF CREDIT**

The organization carries a letter of credit at Integra Bank for \$251,071 and \$682,518 at Old National Bank in order to cover infrastructure costs that are in process. The city requires such costs to be secured until final inspections can be made. None of the letter has been used at June 30, 2011.

See Independent Auditor's Report

**HABITAT FOR HUMANITY OF EVANSVILLE, INC**  
**NOTES TO FINANCIAL STATEMENTS**

**NOTE 13 - INVESTMENT IN JOINT VENTURE**

Habitat invested, along with three other affiliates, in a joint venture HFHI-SA Leverage VIII, LLC with twenty five point seven percent (25.7%) ownership to take advantage of New Market Tax Credit(NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. As a result, Habitat has invested \$ 2,386,637 and was able to secure a 15-year loan in the amount of \$ 3,143,108. payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan accrues interest only for years 1 through 7 at a reduced rate of .756432%. Beginning in year 8 through 15 the principal balance of the loan is reduced by an eight year amortization at the same rate of .756432%.

**NOTE 14 - INVESTMENT IN HFHI-SA LEVERAGE VIII, LLC**

In 2011 Habitat participated in a New Markets Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in "qualified low-income community investment". Program compliance requirements included creation of a promissory note and investment in a qualified community development entity (CDE). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

In 2011 Habitat recorded its 25.7% investment in HFHI-SA Leverage VIII, LLC at the cost of \$2,386,637. Revenue recorded at \$ 870,000 equals the amount Habitat expended for eligible low income home construction costs.

On February 24, 2011, 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 VIII, 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.

**NOTE 15 - LONG TERM DEBT**

Long-term debt consists of the following:

HFHI-SA NMTC V, LLC	\$ 3,143,108
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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.

**NOTE 16 - LINE OF CREDIT**

Habitat has a line of credit for \$100,000 from First Federal Savings bank. None of the line of credit was used at June 30, 2011

**NOTE 17 - INCOME TAX**

The organization adopted the provisions of FASB Accounting Standards Codification Topic 740, as it relates to Accounting for Uncertainty in Income Taxes. The standards prescribe attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken in a tax return. It requires affirmative evaluation that is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements, and additional disclosures about

See Independent Auditor's Report

**HABITAT FOR HUMANITY OF EVANSVILLE, INC**  
**NOTES TO FINANCIAL STATEMENTS**

uncertain tax positions are required. Habitat's adoption of these accounting standards had no impact on the financial statements.

Habitat's evaluation as of June 30, 2011 revealed no tax positions that, if overturned, would have a material impact on the financial statements. The 2008 through 2010 tax years remain subject to examination by the Internal Revenue Service. Habitat does not believe that any reasonable possible changes will occur within the next twelve months that will have a material impact on the financial statements.

**NOTE 18 - FAIR VALUE MEASUREMENTS**

Habitat applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for an asset or liability, in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair values are as follows:

Level 1 - Observable inputs such as quoted prices in active markets;

Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and

Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The level in fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The fair values of investments categorized as level one are money market funds. The fair values are determined by quoted prices in active exchange markets.

The discount on non-interest bearing mortgage loans is categorized as level two. The discount rate used for all mortgages closed during a fiscal year, published annually by Habitat for Humanity International on June 30, is based on an average of the low-income housing credit annual discount rate, Revenue Ruling 2009-16 section 42(b)(1), for buildings placed in service during the period.

**NOTE 19 - SUBSEQUENT EVENTS**

Management evaluated the activity of Habitat through September 26, 2011 the date the financial statements were available to be issued.

The letter of credit from Old National Bank has been reduced to \$85,775 on 7/12/2011. None of the credit has been used.

See Independent Auditor's Report