

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

FINANCIAL STATEMENTS

Year Ended June 30, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of Evansville, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Evansville, 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. 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 Evansville, 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.

Evansville, Indiana
August 29, 2013

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENT OF FINANCIAL POSITION

June 30, 2013

ASSETS

Current assets:

Cash	\$ 410,641
Houses available for sale	58,427
Construction in process	81,518
Land held for development	439,917
Mortgages receivable, current	626,850
Other current assets	<u>27,875</u>

Total current assets 1,645,228

Other assets:

Mortgages receivable, net	3,792,630
Investment in joint venture	2,332,691
Intangible assets, net	125,737
Beneficial interest in assets held by others	29,955
Property and equipment, net	<u>26,135</u>

Total other assets 6,307,148

Total assets \$ 7,952,376

LIABILITIES AND NET ASSETS

Current liabilities:

Accounts payable	\$ 15,425
Accrued expenses	54,918
Other current liabilities	<u>800</u>

Total current liabilities 71,143

Long-term debt 3,143,108

Total liabilities 3,214,251

Net assets:

Unrestricted	4,698,823
Temporarily restricted	9,347
Permanently restricted	<u>29,955</u>

Total net assets 4,738,125

Total liabilities and net assets \$ 7,952,376

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENT OF ACTIVITIES

Year Ended June 30, 2013

Unrestricted net assets:

Revenues:	
Sales to homeowners	\$ 529,400
Contributions and grants	1,029,827
In-kind donations	75,525
Mortgage discount amortization	388,495
Interest	173
Other income	36,803
	<u>2,060,223</u>
Total revenues	2,060,223
Net assets released from restrictions	<u>5,078</u>
Total revenues and support	<u>2,065,301</u>
Expenses:	
Program service:	
Construction costs	1,086,736
Other program costs	616,191
General and administrative	159,699
Fundraising	239,016
	<u>2,101,642</u>
Total expenses	2,101,642
Decrease in unrestricted net assets	<u>(36,341)</u>
Temporarily restricted net assets:	
Net assets released from restrictions	<u>(5,078)</u>
Decrease in temporarily restricted net assets	<u>(5,078)</u>
Permanently restricted net assets:	
Change in beneficial interest in assets held by others	<u>1,958</u>
Increase in temporarily restricted net assets	<u>1,958</u>
Decrease in net assets	(39,461)
Net assets, beginning of year	<u>4,777,586</u>
Net assets, end of year	<u>\$ 4,738,125</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENT OF CASH FLOWS

Year Ended June 30, 2013

Cash flows from operating activities:	
Decrease in net assets	\$ (39,461)
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Depreciation and amortization	42,715
Origination of mortgages	(523,055)
Transfer of homes to Habitat	57,634
Mortgage discount	288,694
Mortgage discount amortization	(388,495)
Gain on disposition of assets	2,292
Donated property and equipment	(7,000)
Change in beneficial interest in assets held by others	(1,958)
Decrease (increase) in assets:	
Houses available for sale	(3,170)
Construction in process	95,548
Land held for development	59,536
Other current assets	(23,503)
Increase (decrease) in liabilities:	
Accounts payable	(65,930)
Accrued expenses	18,297
Other current liabilities	(3,775)
Net cash used in operating activities	<u>(491,631)</u>
Cash flows from investing activities:	
Purchases of property and equipment	(3,543)
Principal collected on mortgages	677,756
Distribution from joint venture	23,770
Transfer to beneficial interest in assets held by others	(7,600)
Net cash provided by investing activities	<u>690,383</u>
Net increase in cash	198,752
Cash, beginning of year	<u>211,889</u>
Cash, end of year	<u>\$ 410,641</u>
Supplemental disclosure of cash flow information:	
Interest paid	<u>\$ 23,775</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2013

	Program Service		General & Admin.	Fund- raising	Total
	Construction Costs	Other Program Costs			
Building costs	\$ 862,156	\$ -	\$ -	\$ -	\$ 862,156
Mortgage discount	-	288,694	-	-	288,694
Salaries	176,849	55,499	70,515	138,708	441,571
Employee benefits	34,208	32,147	11,019	46,416	123,790
Advertising	-	-	-	6,852	6,852
Amortization	-	20,617	-	-	20,617
Bank charges	-	22,383	1,127	-	23,510
Depreciation	-	14,573	7,524	-	22,097
Insurance	-	4,400	1,033	-	5,433
Interest	-	23,775	-	-	23,775
Miscellaneous	-	14,769	1,461	1,689	17,919
Mortgage servicing	-	32,647	-	-	32,647
Office	-	1,647	18,867	-	20,514
Payroll taxes	13,523	4,392	5,289	10,567	33,771
Printing & postage	-	967	928	29,362	31,257
Professional fees	-	19,026	12,510	2,500	34,036
Rent	-	22,200	9,000	-	31,200
Repairs & maintenance	-	3,039	-	-	3,039
Supplies	-	527	-	-	527
Telephone	-	6,574	3,531	-	10,105
Tithe	-	30,547	-	-	30,547
Travel & education	-	5,524	7,189	2,922	15,635
Utilities	-	4,814	1,385	-	6,199
Volunteer	-	7,430	8,321	-	15,751
	\$ 1,086,736	\$ 616,191	\$ 159,699	\$ 239,016	\$ 2,101,642

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2013

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, 2013

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.

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 7.39% 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 is in excess of the related mortgage note balances.

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.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2013

1. Organization and Summary of Significant Accounting Policies, Continued

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.

Beneficial Interest in Assets Held by Others

The beneficial interest in assets held by others, which consists of assets contributed to another organization in which Habitat specified itself as the beneficiary, is carried at fair market value.

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.

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, 2013

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 \$19,422 in donated services for the year ended June 30, 2013. 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 \$56,103 in donated materials for the year ended June 30, 2013.

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, 2013:

Mortgages receivable – current	\$ 626,850
Mortgages receivable – long-term	<u>8,976,389</u>
Total mortgages receivable	9,603,239
Less discount to net present value	<u>(5,183,759)</u>
Mortgages receivable, net	<u>\$ 4,419,480</u>

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2013

3. Investment in Joint Venture

In 2011, Habitat participated in a New Market Tax Credit (NMTC) program. The program provides tax credits over a seven year period to eligible investors for making a qualified low-income community investment. Program compliance requirements include creation of a promissory note and investment in a qualified community development entity (CDE). Habitat and three other Habitat affiliates formed a joint venture, HFHI-SA Leverage VIII, LLC, to take advantage of NMTC financing. Habitat invested \$2,386,637 for a 25.7% ownership interest and was able to secure a 15 year loan in the amount of \$3,143,108 payable to HFHI-SA NMTC V, LLC (sub-CDE), an affiliate of the joint venture (see Note 7). The loan proceeds are to be used solely for the purpose of constructing and selling qualified homes to low-income residents. Investment in the joint venture was \$2,332,691 at June 30, 2013.

The loan has a put option that will enable HFHI-SA Leverage VIII, LLC to become owner of the sub-CDE. Exercise of the option will effectively extinguish Habitat's outstanding debt owed to the sub-CDE.

4. Intangible Assets

Intangible assets consisted of the following at June 30, 2013:

Cost:	
Structuring fee	\$ 118,495
Closing costs	55,350
	<u>173,845</u>
Accumulated amortization:	
Structuring fee	(39,498)
Closing costs	(8,610)
	<u>(48,108)</u>
Intangible assets, net	<u>\$ 125,737</u>

5. Beneficial Interest in Assets Held by Others

Habitat contributed funds to the Community Foundation Alliance (CFA) and specified itself as the beneficiary. Income is to be distributed to Habitat for unrestricted purposes and the principal must remain intact for perpetuity. CFA was granted variance power to modify any restriction or condition of the distribution of the funds for any specified charitable purposes or to specified organizations if such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community and area served. Habitat contributions to CFA were \$7,600 for the year ended June 30, 2013.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2013

5. Beneficial Interest in Assets Held by Others, Continued

For the year ended June 30, 2013, an unrealized gain of \$1,958 related to the beneficial interest was reported as a change in permanently restricted net assets. The historical cost and fair value of the beneficial interest was \$28,600 and \$29,955, respectively, at June 30, 2013.

Fair value of the beneficial interest in assets held by others is measured using the fair value of the assets held in the fund as reported by CFA at March 31, 2013, the most recent report available. Even though that measurement is based on unadjusted fair values of the fund assets, Habitat considers the measurement of its beneficial interest to be a Level 3 input because Habitat will never receive those assets or have the ability to direct CFA to redeem them. There have been no changes in valuation techniques and related inputs.

The table below presents information about the fair value measurements of the beneficial interest in assets held by others for the year ended June 30, 2013:

Beginning of year	\$	20,397
Contribution of assets to CFA		7,600
Total gains or losses recognized in the change in permanently restricted net assets:		
Change in value of beneficial interest in assets held by others		<u>1,958</u>
End of year	\$	<u>29,955</u>

Habitat recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

At least annually, management and the Board of Directors review and approve Habitat's fair value measurement policies and procedures and determine if the valuation techniques used in fair value measurements are still appropriate.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2013

6. Property and Equipment

Property and equipment consisted of the following at June 30, 2013:

Cost:	
Office equipment	\$ 42,171
Construction equipment	<u>64,653</u>
	106,824
Accumulated depreciation	<u>(80,689)</u>
Property and equipment, net	<u>\$ 26,135</u>

7. 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) at June 30, 2013. Debt requires interest only payments until June 5, 2018 at .756432%. The loan matures February 24, 2026. The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The debt has a put option feature that is exercisable March 6, 2018.

8. Leases

The Organization leases office and warehouse space under a noncancelable operating lease agreement, which expires December 2015. Total rent expense was \$31,200 for the year ended June 30, 2013.

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

2014	\$ 31,200
2015	31,200
2016	<u>15,600</u>
	<u>\$ 78,000</u>

9. Restricted Net Assets

Temporarily restricted net assets consisted of \$9,347 at June 30, 2013 to be used for special needs modifications to homes. Net assets in the amount of \$5,078 were released from restrictions upon satisfaction of these restrictions during the year ended June 30, 2013.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

NOTES TO FINANCIAL STATEMENTS

Year Ended June 30, 2013

9. Restricted Net Assets, Continued

Permanently restricted net assets consisted of a beneficial interest in assets held by others in the amount of \$29,955 (See Note 5).

10. 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 2010, 2011, 2012, and 2013 are subject to examination by the Internal Revenue Service, generally for three years after they were filed.

11. 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 \$11,246 for the year ended June 30, 2013.

12. 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 \$30,547 to HFHI for the year ended June 30, 2013. These amounts are included in program services in the statement of activities.

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 August 29, 2013, the date the financial statements were available to be issued.