HABITAT FOR HUMANITY OF EVANSVILLE, INC.

FINANCIAL STATEMENTS

Years Ended June 30, 2015 and 2014

(With Independent Auditor's Report Thereon)

CONTENTS

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 statements of financial position as of June 30, 2015 and 2014, and the related statements of activities, functional expenses, and cash flows for the years 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 audits. We conducted our audits 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, 2015 and 2014, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Riney Hancock CPAs PSC

Evansville, Indiana
October 7, 2015

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HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2015 and 2014

	2015	2014
ASSETS		
Current assets:		
Cash	$ 769,535	$ 283,387
Houses available for sale	65,716	34,696
Construction in process	205,406	203,680
Land held for development	418,113	412,095
Mortgages receivable, current	635,007	644,606
Pledges receivable, current	36,000	-
Other current assets	20,166	15,796
Total current assets	2,149,943	1,594,260
Other assets:		
Mortgages receivable, net	3,681,713	3,776,594
Investment in joint venture	2,285,149	2,308,920
Pledges receivable, noncurrent, net	156,494	-
Intangible assets, net	84,501	105,119
Beneficial interest in assets held by others	34,777	36,326
Property and equipment, net	12,100	19,412
Total other assets	6,254,734	6,246,371
Total assets	$ 8,404,677	$ 7,840,631
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 39,481	$ 44,594
Accrued expenses	50,648	42,138
Other current liabilities	1,600	2,400
Total current liabilities	91,729	89,132
Long-term debt	3,143,108	3,143,108
Total liabilities	3,234,837	3,232,240
Net assets:		
Unrestricted	4,933,322	4,562,718
Temporarily restricted	201,841	9,347
Permanently restricted	34,677	36,326
Total net assets	5,169,840	4,608,391
Total liabilities and net assets	$ 8,404,677	$ 7,840,631

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2015 and 2014

	2015	2014
Unrestricted net assets:		
Revenues:		
Sales to homeowners	$ 591,600	$ 652,708
Contributions and grants	1,193,684	887,069
In-kind donations	58,015	64,075
Mortgage discount amortization	429,943	359,666
Interest	311	311
Other income	4,487	24,548
Total revenues	2,278,040	1,988,377
Expenses:		
Program service:		
Construction costs	912,769	1,112,244
Other program costs	657,648	655,424
General and administrative	148,203	130,359
Fundraising	188,816	223,205
Total expenses	1,907,436	2,121,232
Increase (decrease) in unrestricted net assets	370,604	(132,855)
Temporarily restricted net assets:		
Contributions	192,494	-
Increase in temporarily restricted net assets	192,494	-
Permanently restricted net assets:		
Change in beneficial interest in assets held by others	(1,649)	3,121
Increase (decrease) in permanently restricted net assets	(1,649)	3,121
Increase (decrease) in net assets	561,449	(129,734)
Net assets, beginning of year	4,608,391	4,738,125
Net assets, end of year	$ 5,169,840	$ 4,608,391

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2015 and 2014

	2015					2014				
	Program Service					Program Service				
	Construction Costs	Other	General & Admin.	Fund-raising	Total	Construction Costs	Other	General & Admin.	Fund-raising	Total
Building costs	$ 747,603	$ -	$ -	$ -	$ 747,603	$ 900,682	$ -	$ -	$ -	$ 900,682
Mortgage discount	-	314,787	-	-	314,787	-	345,040	-	-	345,040
Salaries	132,810	109,764	62,665	96,176	401,415	165,690	35,360	58,159	114,031	373,240
Employee benefits	22,242	13,564	9,225	17,479	62,510	33,124	20,137	8,949	36,011	98,221
Advertising	-	-	-	3,791	3,791	-	10,000	-	4,846	14,846
Amortization	-	20,617	-	-	20,617	-	20,618	-	-	20,618
Bank charges	-	18,895	2,454	-	21,349	-	19,664	1,803	-	21,467
Depreciation	-	2,312	5,000	-	7,312	-	4,975	2,248	-	7,223
Insurance	-	3,965	552	-	4,517	-	4,178	952	-	5,130
Interest	-	23,775	-	-	23,775	-	23,775	-	-	23,775
Miscellaneous	-	18,561	5,457	1,106	25,124	-	10,193	1,689	1,120	13,002
Mortgage servicing	-	32,352	-	-	32,352	-	35,733	-	-	35,733
Office	-	7,381	19,283	-	26,664	-	3,892	18,143	-	22,035
Payroll taxes	10,114	8,439	4,706	7,305	30,564	12,748	2,690	4,392	8,730	28,560
Printing & postage	-	3,412	427	47,953	51,792	-	4,575	720	45,984	51,279
Professional fees	-	9,961	11,279	7,257	28,497	-	4,887	10,765	-	15,652
Rent	-	22,200	9,000	-	31,200	-	22,200	9,000	-	31,200
Repairs & maintenance	-	3,451	-	-	3,451	-	3,481	-	-	3,481
Special events	-	-	-	5,640	5,640	-	-	-	8,879	8,879
Supplies	-	267	-	-	267	-	1,234	-	-	1,234
Telephone	-	2,808	3,281	-	6,089	-	8,638	3,355	-	11,993
Tithe & contributions	-	26,600	-	-	26,600	-	58,200	-	-	58,200
Travel & education	-	3,791	7,233	2,109	13,133	-	5,331	2,332	3,604	11,267
Utilities	-	5,834	1,897	-	7,731	-	5,341	1,567	-	6,908
Volunteer	-	4,912	5,744	-	10,656	-	5,282	6,285	-	11,567
	$ 912,769	$ 657,648	$ 148,203	$ 188,816	$ 1,907,436	$ 1,112,244	$ 655,424	$ 130,359	$ 223,205	$ 2,121,232

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2015 and 2014

	2015	2014
Cash flows from operating activities:		
Increase (decrease) in net assets	$ 561,449	$ (129,734)
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation and amortization	27,930	27,841
Origination of mortgages	(570,274)	(633,465)
Transfer of homes to Habitat	26,850	-
Mortgage discount	314,787	345,040
Mortgage discount amortization	(429,943)	(359,666)
Donated property and equipment	-	(500)
Gain on disposition of property and equipment	-	(400)
Change in beneficial interest in assets held by others	1,649	(3,121)
Decrease (increase) in assets:		
Houses available for sale	(31,020)	23,731
Construction in process	(1,726)	(122,162)
Land held for development	(6,018)	27,822
Pledges receivable	(192,494)	-
Other current assets	(4,370)	12,079
Increase (decrease) in liabilities:		
Accounts payable	(5,113)	29,169
Accrued expenses	8,510	(12,780)
Other current liabilities	(800)	1,600
Net cash used in operating activites	(300,583)	(794,546)
Cash flows from investing activities:		
Principal collected on mortgages	763,060	646,371
Proceeds from sale of property and equipment	-	400
Distribution from joint venture	23,771	23,771
Transfer to beneficial interest in assets held by others	(100)	(3,250)
Net cash provided by investing activities	786,731	667,292
Net increase (decrease) in cash	486,148	(127,254)
Cash, beginning of year	283,387	410,641
Cash, end of year	$ 769,535	$ 283,387
Supplemental disclosure of cash flow information:		
Interest paid	$ 23,775	$ 23,775

See Notes to Financial Statements.

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.

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.

1. Organization and Summary of Significant Accounting Policies, Continued

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.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received, net of an allowance for uncollectible amounts. Management utilizes the allowance method of accounting for uncollectible promises to give, based on historical collection experience and current economic conditions. Management believes no allowance for doubtful accounts is considered necessary due to the nature of the relationship with the donors. Promises to give are recorded at net realizable value if expected to be collected within one year. Promises to give expected to be collected in more than one year are discounted to the present value of future cash flows using a 1.63% discount rate.

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.

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.

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.

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 a non-financial asset, require specialized skills which are provided by individuals with those skills, and would otherwise need to be purchased. Habitat recognized $8,708 and $25,345 in donated services for the years ended June 30, 2015 and 2014, respectively. 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 $38,427 and $38,230 in donated materials for the years ended June 30, 2015 and 2014, respectively.

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:

	2015	2014
Mortgages receivable – current	$ 635,007	$ 644,606
Mortgages receivable – long-term	8,735,664	8,945,702
Total mortgages receivable	9,370,671	9,590,308
Less discount to net present value	(5,053,951)	(5,169,108)
Mortgages receivable, net	$ 4,316,720	$ 4,421,200

3. Promises to Give

Promises to give consisted of the following at June 30, 2015:

Receivable in less than one year	$ 36,000
Receivable in one to five years	164,000
Total promises to give	200,000
Less discount to net present value	(7,506)
Promises to give, net	$ 192,494

4. 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 8). 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 $2,285,149 and $2,308,920 at June 30, 2015 and 2014, respectively.

4. Investment in Joint Venture, Continued

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.

5. Intangible Assets

Intangible assets consisted of the following at June 30:

	2015	2014
Cost:		
Structuring fee	$ 118,495	$ 118,495
Closing costs	55,350	55,350
	173,845	173,845
Accumulated amortization:		
Structuring fee	73,354	56,426
Closing costs	15,990	12,300
	89,344	68,726
Intangible assets, net	$ 84,501	$ 105,119

Estimated amortization expense is $20,617 for each of the years ended June 30, 2016 through 2019, and $2,033 for the year ended June 30, 2020.

6. 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. The historical cost of the beneficial interest was $31,950 and $31,850 at June 30, 2015 and 2014, respectively.

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 June 30, 2015. 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.

6. Beneficial Interest in Assets Held by Others, Continued

There have been no changes in valuation techniques and related inputs. 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.

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:

	2015	2014
Beginning of year	$ 36,326	$ 29,955
Contribution of assets to CFA	100	3,250
Total gains or losses recognized in the change in permanently restricted net assets:		
Change in value	(1,649)	3,121
End of year	$ 34,777	$ 36,326

7. Property and Equipment

Property and equipment consisted of the following at June 30:

	2015	2014
Cost:		
Office equipment	$ 42,171	$ 42,171
Construction equipment	57,653	57,653
	99,824	99,824
Accumulated depreciation	(87,724)	(80,412)
Property and equipment, net	$ 12,100	$ 19,412

8. 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 4) at June 30, 2015 and 2014. 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.

9. Restricted Net Assets

Temporarily restricted net assets consisted of the following at June 30:

	2015	2014
Restricted for special needs modifications	$ 9,347	$ 9,347
Time-restricted contributions	192,494	-
End of year	$ 201,841	$ 9,347

No net assets were released from restrictions for the years ended June 30, 2015 and 2014.

Permanently restricted net assets consisted of a beneficial interest in assets held by others in the amount of $34,777 and $36,326 at June 30, 2015 and 2014, respectively (See Note 6).

10. 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 each of the years ended June 30, 2015 and 2014.

Future minimum lease payments are $15,600 for the year ended June 30, 2016.

11. Retirement Plan

Habitat maintains a Simple IRA defined contribution plan covering substantially all of its employees. Habitat matches employee contributions up to 3% of eligible wages. Total contributions to this plan were $10,987 and $9,509 for the years ended June 30, 2015 and 2014.

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 $21,600 and $30,700 to HFHI for the years ended June 30, 2015 and 2014, respectively. In addition, Habitat paid HFHI $5,000 and $2,500 for operational support for the years ended June 30, 2015 and 2014, respectively. These amounts are included in program services in the statement of activities.

13. 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.

14. Concentrations of Credit Risk

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

15. Subsequent Events

The Organization has evaluated subsequent events through October 7, 2015, the date the financial statements were available to be issued.