

HANCOCK COUNTY HABITAT FOR HUMANITY
Independent Auditors' Report
For the Year Ended
June 30, 2013
with Summarized Information
For the Year Ended
June 30, 2012



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INDEPENDENT AUDITORS' REPORT

January 6, 2014

To the Board of Directors
Hancock County Habitat for Humanity

We have audited the accompanying financial statements of of Hancock County Habitat for Humanity (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expense, 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 of Hancock County Habitat for Humanity 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.

Report on Summarized Comparative Information

We have previously audited the of Hancock County Habitat for Humanity's 2012 financial statements, and our report dated December 27, 2012, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2012, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Horton McFarland & Veysey

Horton, McFarland & Veysey, LLC
Ellsworth, ME
January 6, 2014



**Hancock County Habitat for Humanity
Statements of Financial Position
for the Years Ended June 30,**

<i>Assets</i>	2013	2012
Current Assets:		
Cash and Cash Equivalents	71,089	123,270
Prepaid Insurance	1,685	1,008
Security Deposit	2,000	2,000
Home Depot Gift Card	135	-
Construction in Progress	91,906	71,668
Mortgage Notes Receivable - Current	39,914	29,986
Discount on Current Non-Interest Bearing Mortgage Loans	(18,234)	(16,912)
Total Assets	<u>188,495</u>	<u>211,020</u>
Noncurrent Assets:		
Mortgage Notes Receivable - Noncurrent	539,199	493,899
Discount on Noncurrent Non-Interest Bearing Mortgage Loans	(186,836)	(177,836)
Land Held for Development	56,000	56,000
Equipment, Net of Accumulated Depreciation	3,457	5,381
Total Noncurrent Assets	<u>411,820</u>	<u>377,444</u>
Total Assets	<u>600,315</u>	<u>588,464</u>
<i>Liabilities and Net Assets</i>		
Current Liabilities:		
Accounts Payable	8,102	2,592
Sales Tax Payable	1,235	1,032
Accrued Payroll	7,692	5,572
Total Current Liabilities	<u>17,029</u>	<u>9,196</u>
Net Assets:		
Unrestricted	572,651	571,768
Temporarily Restricted	10,635	7,500
Total Net Assets	<u>583,286</u>	<u>579,268</u>
Total Liabilities and Net Assets	<u>600,315</u>	<u>588,464</u>

See accompanying notes and independent auditors' report.



Hancock County Habitat for Humanity
Statement of Activity
Year Ended June 30, 2013 with Summarized Financial Information
for the Year Ended June 30, 2012

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total 2013</i>	<i>Summarized Information 2012</i>
Support and Revenues:				
Sales to Homeowners, (Net of Discount on Mortgages of \$32,261)	55,289		55,289	62,589
Cash Contributions	52,350		52,350	92,235
Grants and Bequests	4,824	11,500	16,324	11,686
Contributed Services, Materials and Land	11,814		11,814	23,284
Fundraising	11,398		11,398	19,748
Interest Income	183		183	566
Mortgage Loan Discount Amortization	21,939		21,939	17,196
Restore, Net of Expense	20,299		20,299	5,128
Net Assets Released from Restriction	8,365	(8,365)	-	-
	<u>186,461</u>	<u>3,135</u>	<u>189,596</u>	<u>232,432</u>
Expenses:				
Program Services	127,193	-	127,193	137,056
Supporting Services	23,902	-	23,902	23,919
Fundraising	34,483	-	34,483	33,393
	<u>185,578</u>	<u>-</u>	<u>185,578</u>	<u>194,368</u>
Change in Net Assets	883	3,135	4,018	38,064
Beginning Net Assets	<u>571,768</u>	<u>7,500</u>	<u>579,268</u>	<u>541,204</u>
Ending Net Assets	<u><u>572,651</u></u>	<u><u>10,635</u></u>	<u><u>583,286</u></u>	<u><u>579,268</u></u>

See accompanying notes and independent auditors' report.



Hancock County Habitat for Humanity
Statements of Cash Flows
for the Years Ended June 30,

	2013	2012
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	4,018	38,064
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Noncash Contribution	-	-
Sales to Homeowners', Net	(55,289)	(62,589)
Depreciation	1,924	3,138
Mortgage Loan Discount Amortization	(21,939)	(17,196)
Changes in Operating Assets & Liabilities		
(Increase) Decrease in Accounts Receivable	-	1,144
(Increase) Decrease in Pledge Receivable	-	5,672
(Increase) Decrease in Prepaid Insurance	(677)	(399)
(Increase) Decrease in Security Deposit	-	(2,000)
(Increase) Decrease in Gift Cards	(135)	178
(Increase) Decrease in Construction in Progress	(20,239)	(33,760)
Increase (Decrease) in Accounts Payable	5,510	(1,738)
Increase (Decrease) in Sales Tax Payable	203	(130)
Increase (Decrease) in Accrued Payroll Liabilities	2,120	222
Net Cash Provided By (Used in) Operating Activities	<u>(84,504)</u>	<u>(69,394)</u>
Cash Flows from Investing Activities		
Cash Payments for the Purchase of Property	-	(24,000)
(Increase) Decrease in Land Held for Investment	-	22,577
Mortgage Payments Received	32,323	26,935
Net Cash Provided by Investing Activities	<u>32,323</u>	<u>25,512</u>
Net Decrease in Cash and Cash Equivalents	(52,181)	(43,882)
Cash and Cash Equivalents, Beginning of Year	<u>123,270</u>	<u>167,152</u>
Cash and Cash Equivalents, End of Year	<u><u>71,089</u></u>	<u><u>123,270</u></u>

See accompanying notes and independent auditors' report.



**Hancock County Habitat for Humanity
Statements of Functional Expense
for the Years Ended June 30,**

	2013			Total
	Program Services	Supporting Services		
		Management and General	Fund Raising	
Construction Costs	89,443			89,443
Debt Forgiveness to Homeowner	3,256			3,256
Insurance	4,248	1,445	1,343	7,036
Postage	-	389	-	389
Telephone	392	261	652	1,305
Office Expense	1,501	-	-	1,501
Professional Fees	5,297	-	-	5,297
Occupancy	673	-	-	673
Wages	9,883	17,403	16,472	43,758
Payroll Taxes	472	832	787	2,091
Employee Benefits	5,358	3,572	8,930	17,860
Fundraising	-	-	6,299	6,299
Tithe	4,297	-	-	4,297
Depreciation	1,924			1,924
Miscellaneous	449			449
	<u>127,193</u>	<u>23,902</u>	<u>34,483</u>	<u>185,578</u>

	2012			Total
	Program Services	Supporting Services		
		Management and General	Fund Raising	
Construction Costs	99,109	-	-	99,109
Debt Forgiveness to Homeowner	5,066	-	-	5,066
Insurance	3,482	597	291	4,370
Postage	-	770	-	770
Telephone	463	309	772	1,544
Office Expense	2,994	-	-	2,994
Professional Fees	7,218	-	-	7,218
Occupancy	570	-	-	570
Wages	9,750	18,177	16,250	44,177
Payroll Taxes	701	1,306	1,168	3,175
Employee Benefits	4,141	2,760	6,901	13,802
Fundraising	-	-	8,011	8,011
Depreciation	3,138	-	-	3,138
Miscellaneous	424	-	-	424
	<u>137,056</u>	<u>23,919</u>	<u>33,393</u>	<u>194,368</u>

See accompanying notes and independent auditors' report.



Note 1 - Summary of Significant Accounting Policies

Hancock County Habitat for Humanity's financial statements include the operations for which the Board of Directors exercises oversight responsibility. Oversight responsibility is demonstrated by financial interdependency, designation of management, ability to significantly influence operations, and accountability for fiscal matters.

Operation

Hancock County Habitat for Humanity works in partnership with low-income families to make safe, decent, and affordable housing a matter of community conscience and action. Habitat builds market-quality homes utilizing volunteer labor and sells each home to a qualifying low-income family for little cash down and a 20-30 year non-interest bearing mortgage. The home is also subject to a second mortgage, representing the difference between the market value of the home and the first mortgage charged to the homeowner. The second mortgage is due only upon the homeowner's sale of the home. The homeowner earns any equity in the home above the original market value. Habitat requires each of its homebuyers to provide a minimum number of hours as sweat equity. In addition, each buyer is provided pre-purchase and post-purchase homeowner education and counseling.

Revenue Sources

Hancock County Habitat for Humanity received funds in the form of contributions from the community, fundraising events, Restore sales, grants and receipts of mortgage payments from partner families.

Basis of Accounting

The accrual basis of accounting has been used in these financial statements. Under this basis, revenues are recognized when earned and measurable. Expenses are recognized when they are incurred.

Financial Statement Presentation

The Organization complies with the *Financial Statements of Not-for-profit Organizations* topic of the FASB Codification. Under this topic, the Organization is required to report 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.

A description of the Organization's net asset categories is as follows:

Unrestricted - Unrestricted net assets consist of investments and otherwise unrestricted amounts that are available for use in carrying out the mission of the Organization, and include those expendable resources which have been designated for special use by the Board of Directors.

Temporarily Restricted - Temporarily restricted net assets represent those amounts which are donor restricted for specific purposes. When a donor restriction expires, 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.

Permanently Restricted - Permanently restricted net assets result from contributions from donors who place restrictions on the use of the funds which mandate that the original principal be invested in perpetuity. The Organization has no permanently restricted net assets.

HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities in the financial statements. Estimates and assumptions may also affect disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expense. Actual results may differ from those estimates.

Cash and Cash Equivalents

The Organization maintains its cash balances in one financial institution located within Maine. The balances are insured by the Federal Deposit Insurance Corporation up to \$250,000. There were no uninsured funds at June 30, 2013 and 2012, respectively.

For purposes of the statements of cash flows, the Organization considers demand deposit accounts to be cash equivalents.

General Fixed Assets

The Organization does maintain a record of general fixed assets. Expenditures for property and equipment are charged against the appropriate assets account whenever such items are purchased. The basis of assets acquired by purchase is reported at the asset's acquisition cost. The basis of assets acquired by means other than purchase is determined by estimation of the asset's fair market value. Their inclusion in the general-purpose financial statements does not affect the net asset balance.

The following is a summary of methods and useful lives by category:

<i>Category</i>	<i>Method</i>	<i>Life</i>
Equipment	Double Declining Balance	5-7 Years
Vehicles	Double Declining Balance	5-7 Years

Sales to Homeowners

Sales to homeowners represent the sale of houses built by Habitat. The resulting mortgages are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Habitat recognizes the income from the sales to homeowners on the completed contract method.

Cost Recognition / Construction in Progress

All direct material, labor, and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tools are recorded as construction in progress on the Statement of Financial Position as they are incurred. Land costs are stated at the lower of cost or fair value at the date of contribution or purchase. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the Statement of Activities as program costs.

Credit Risk - Mortgage Loans Receivable

The Organization'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.



HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2013

Note 1 - Summary of Significant Accounting Policies (Continued)

Donated Inventories

The Organization does not record donations of items to the Restore. The Organization is following Habitat for Humanity International policies and procedures. In addition, donated assets have uncertain values as fair market values are not readily determinable. Restore sales are recognized as revenue at the time merchandise is transferred to the customer.

Contributed Services

Financial Statements of Not-for-profit Organizations topic of the FASB Codification requires recognition of contribution for donated services if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by the Organization. These contributions are recorded at their fair values in the period received. In addition, many individuals volunteer their time and perform a variety of tasks such as painting, landscaping and other construction tasks that do not require skilled labor.

Non-Cash Contributions

Gifts of equipment are reported as unrestricted support unless explicit donor stipulations specify how the donated asset must be used. Gifts of long-lived assets with explicit restrictions that specify how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are reported as restricted support. Absent explicit donor stipulations about how those assets must be maintained, expirations of donor restrictions are reported when the donated or acquired long-lived assets are placed in service.

Income Tax Status

Hancock County Habitat for Humanity is exempt from income taxes under Code Section 501 (c)(3) of the Internal Revenue Code and is classified as an organization that is not a private foundation as described in Section 509 (a). The Organization regularly reviews and evaluates its tax position taken in previously filed information returns and as reflected in its financial statements, with regard to issues affecting its tax exempt status, unrelated business income, and related matters. The Organization believes that in the event of an examination by taxing authorities, its position would prevail based upon technical merit of such positions. Therefore the Organization has concluded that no tax benefits or liabilities are required to be recognized.

The Organization's tax returns are subject to federal and state review by taxing authorities for fiscal years ended June 30, 2011, 2012 and 2013.

Hancock County Habitat for Humanity is subject to Federal and State payroll taxes and is required to file the appropriate tax returns. Management believes that all required returns have been properly filed as of June 30, 2013. No examinations have been conducted by the Federal or State taxing authorities and no correspondence has been received from these authorities.

Accrued Payroll

Payroll earned in one period but paid in a subsequent period is recorded in the period earned as accrued payroll. Payroll taxes payable and employee deductions payable differs from accrued expenses in that they represents payroll taxes and other deductions accrued and withheld as of the end of the fiscal year, but are not yet paid to the respective agencies.



**HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2013**

Note 2 - Mortgages Receivable

Mortgage receivables consist of non-interest bearing mortgages which are secured by real estate and payable in monthly installments. Mortgages are to be paid back over an established and mutually agreed period of time varying from 20 to 30 years. These mortgages have been discounted at the prevailing market rates for low-income housing at the time of origination. Interest income (amortization of discount) is recorded using the effective interest method over the lives of the mortgages. Deeds to the homes are held by the Organization. The discount is amortized using the effective interest method. Receivables related to the mortgages are considered past-due or delinquent by the Organization when they are 30 days late.

Mortgage receivables as of June 30, are as follows:

	<i>2013</i>	<i>2012</i>
Mortgages receivable at face value	\$579,113	\$523,885
Unamortized discounts on mortgages	<u>(205,070)</u>	<u>(194,748)</u>
	<u>\$374,043</u>	<u>\$329,137</u>

Future collections on these mortgages will be received over the next five years as follows:

2014	\$ 18,361
2015	15,974
2016	16,847
2017	17,769
2018	18,743
Thereafter	<u>286,349</u>
Total	<u>\$374,043</u>

Note 3 - Transactions with Habitat International

The Organization annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2013, the Organization contributed \$4,297. At June 30, 2012, the contribution amount had not yet been calculated or paid. This amount is included in Program Service Expense in the Statement of Activities.

Note 4 - Property and Equipment

Property and equipment consists of the following:

	<i>2013</i>	<i>2012</i>
Office Equipment and Fixtures	\$5,405	\$5,405
Vehicles	<u>9,083</u>	<u>9,083</u>
	14,488	14,488
Accumulated Depreciation	<u>(11,031)</u>	<u>(9,107)</u>
	<u>\$3,457</u>	<u>\$5,381</u>



HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2013

Note 5 - Restore

In October 2009, Hancock County Habitat opened a retail thrift store that specializes in selling surplus new and used building and home improvement materials, appliances, and furniture to the public. The Restore receives donated usable materials from retail businesses, contractors, individuals and other organizations. All net proceeds from the operation of the Restore flow into the Hancock County Habitat organization and help to enhance the home development activities

Gross revenues and expenses are as follows:

	<i>2013</i>	<i>2012</i>
Gross Proceeds	93,836	70,194
Operating Costs	<u>73,537</u>	<u>65,066</u>
Net Proceeds	<u>\$ 20,299</u>	<u>\$ 5,128</u>

Note 6 - Advertising Costs

The Organization used advertising to promote its retail store to the general public. Advertising costs are expensed as incurred. Advertising costs for the year ended June 30, 2013 and 2012 were \$1,399 and \$822, respectively

Note 7 – Temporarily Restricted Net Assets

Temporarily restricted net assets are available for the following purposes and periods:

	<i>2013</i>	<i>2012</i>
Building Project in Blue Hill	1,000	1,000
Equipment Purchase	-	500
Vista Volunteer Coordinator	-	6,000
Building Project - #17	135	-
Building Project - #18	<u>9,500</u>	<u>-</u>
	<u>\$10,635</u>	<u>\$7,500</u>

Note 8 – Operating Lease

Effective September 1, 2012, Hancock County Habitat entered into a lease agreement to lease space for its retail thrift store and office in its new location on Route 1 in Ellsworth, Maine at a monthly rental of \$2,000 for a lease term ending July 31, 2013.

The future minimum rental payments under the lease agreements are as follows:

Year Ended June 30, 2014	\$ 4,000
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Rent expense was \$23,592 and \$25,220 for June 30, 2013 at 2012, respectively.



Note 9 - Commitments and Contingencies

In addition to the non-interest bearing mortgage received from the sale of each home, habitat receives a contingent second mortgage. The second mortgage represents the excess of the market value over the original loan amount of each home sold. Should the homeowner payoff the mortgage early or default on the mortgage the second mortgage would become due. The second mortgage payoff is considered less than probable or remote and therefore no receivable has been recorded in the financial statements.

Note 10 - Subsequent Events Measurement Date

The Hancock County Habitat for Humanity monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements from the year end of June 30, 2013, through January 6, 2014, the date on which the financial statements were available to be issued.

Note 11 - Prior Year Summarized Information

The financial statements contain certain prior year comparative information in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with generally accepted accounting principles. Accordingly, such information should be read in conjunction with the Organization's financial statements for the year ended June 30, 2012 from which the summarized information was derived.



**Hancock County Habitat for Humanity
 Schedule of Activity - Restore
 for the Years Ended June 30,**

Schedule 1

	2013	2012
Sales Revenue	<u>93,836</u>	<u>70,194</u>
Expense		
Insurance	434	484
Rent	23,953	25,220
Utilities	5,880	5,126
Repairs and Maintenance	2,079	-
Property Tax	121	2,225
Auto	3,557	6,497
Supplies	1,046	820
Wages	28,036	20,783
Payroll Taxes	2,145	1,524
Casual Labor	960	-
Advertising	1,399	822
Credit Card Processing Fees	1,344	1,218
Signage	1,796	-
Miscellaneous	787	347
Total Expense	<u>73,537</u>	<u>65,066</u>
Net Restore Revenue	<u><u>20,299</u></u>	<u><u>5,128</u></u>

See independent auditors' report.

