

**HANCOCK COUNTY HABITAT FOR HUMANITY
INDEPENDENT AUDITORS' REPORT
JUNE 30, 2011**



HORTON, McFARLAND & VEYSEY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

December 12, 2011

To the Board of Directors
Hancock County Habitat for Humanity

We have audited the accompanying statement of financial position of Hancock County Habitat for Humanity (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. The prior year summarized comparative information has been derived from Hospice County Habitat for Humanity's 2010 financial statements and, in our report dated December 20, 2010; we expressed an unqualified opinion on those financial statements.

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 Hancock County Habitat for Humanity 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.

Our audit was performed for the purpose of forming an opinion on the basic financial statements taken as a whole. The additional information included on Schedule 1 is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements, and in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Horton, McFarland & Veysey

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

	2011	2010
Assets		
Current Assets:		
Cash & Cash Equivalents	167,152	82,625
Accounts Receivable	1,144	882
Pledge Receivable	5,672	-
Prepaid Insurance	609	939
Home Depot Gift Card	178	-
Construction in Progress	37,909	1,264
Mortgage Notes Receivable - Current	26,021	30,811
Discount on Current Non-Interest Bearing Mortgage Loans	(15,720)	(17,464)
Total Assets	<u>222,965</u>	<u>99,057</u>
Noncurrent Assets:		
Mortgage Notes Receivable - Noncurrent	425,690	492,593
Discount on Noncurrent Non-Interest Bearing Mortgage Loans	(159,705)	(180,301)
Land Held for Development	79,577	79,577
Equipment, Net of Accumulated Depreciation	8,519	8,330
Total Noncurrent Assets	<u>354,081</u>	<u>400,199</u>
Total Assets	<u>577,046</u>	<u>499,256</u>
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	4,330	33
Sales Tax Payable	1,162	703
Accrued Payroll Liabilities	5,350	4,875
Total Current Liabilities	<u>10,842</u>	<u>5,611</u>
Net Assets:		
Unrestricted	550,650	493,645
Temporarily Restricted	15,554	-
Total Net Assets	<u>566,204</u>	<u>493,645</u>
Total Liabilities and Net Assets	<u>577,046</u>	<u>499,256</u>



See accompanying notes and independent auditors' report.

Hancock County Habitat for Humanity
Statement of Activity
Year Ended June 30, 2011 with Summarized Financial Information
for the Year Ended June 30, 2010

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total 2011</i>	<i>Summarized Information 2010</i>
Support and Revenues:				
Sales to Homeowners, (Net of Discount on Mortgages of \$111,232)	-	-	-	157,481
Cash Contributions	12,909	-	12,909	21,187
Stock Contributions	2,790	-	2,790	2,427
Grants and Bequests	5,673	48,654	54,327	20,412
Contributed Services, Materials and Land	100	-	100	39,744
Fundraising	12,836	6,432	19,268	31,791
Interest Income	712	-	712	67
Mortgage Loan Discount Amortization	22,340	-	22,340	17,120
Second Mortgages Collected	15,408	-	15,408	-
Unrealized/Realized Gains on Stock Contributions	-	-	-	1,390
Restore, Net of Expense	23,934	-	23,934	3,159
Net Assets Released from Restriction	39,532	(39,532)	-	-
	<u>136,234</u>	<u>15,554</u>	<u>151,788</u>	<u>294,778</u>
Expenses:				
Program Services	30,629	-	30,629	306,407
Supporting Services	21,218	-	21,218	25,996
Fundraising	27,382	-	27,382	29,067
	<u>79,229</u>	<u>-</u>	<u>79,229</u>	<u>361,470</u>
Change in Net Assets	57,005	15,554	72,559	(66,692)
Beginning Net Assets	493,645	-	493,645	560,337
Ending Net Assets	<u>550,650</u>	<u>15,554</u>	<u>566,204</u>	<u>493,645</u>



See accompanying notes and independent auditors' report.

Hancock County Habitat for Humanity

Statement of Functional Expense

for the Years Ended June 30,

	2011			Total
	Program Services	Supporting Services		
		Management & General	Fund Raising	
Construction Costs	328	-	-	328
Contribution to Habitat International	3,996	-	-	3,996
Insurance	2,479	717	606	3,802
Postage	-	243	-	243
Telephone	469	313	782	1,564
Office Expense	1,250	-	-	1,250
Professional Fees	5,114	-	-	5,114
Occupancy	573	-	-	573
Storage	286	-	-	286
Wages	9,750	16,074	16,250	42,074
Payroll Taxes	466	769	777	2,012
Employee Benefits	1,549	3,102	2,582	7,233
Fundraising	-	-	6,385	6,385
Depreciation	4,036	-	-	4,036
Miscellaneous	333	-	-	333
	<u>30,629</u>	<u>21,218</u>	<u>27,382</u>	<u>79,229</u>

	2010			Total
	Program Services	Supporting Services		
		Management & General	Fund Raising	
Construction Costs	268,713	-	-	268,713
Debt Forgiveness to Homeowner	10,835	-	-	10,835
Contribution to Habitat International	3,075	-	-	3,075
Insurance	2,058	482	301	2,841
Postage	884	57	-	941
Telephone	511	340	851	1,702
Office Expense	1,198	1,432	415	3,045
Professional Fees	2,519	8,477	-	10,996
Occupancy	1,444	-	-	1,444
Storage	120	-	-	120
Wages	11,000	14,112	18,334	43,446
Payroll Taxes	600	770	1,001	2,371
Employee Benefits	490	326	816	1,632
Fundraising	-	-	7,349	7,349
Depreciation	1,933	-	-	1,933
Miscellaneous	1,027	-	-	1,027
	<u>306,407</u>	<u>25,996</u>	<u>29,067</u>	<u>361,470</u>



See accompanying notes and independent auditors' report.

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

	2011	2010
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	72,559	(66,692)
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Gain on Sale of Stock	-	(1,390)
Noncash Construction Costs	-	170,263
Noncash Contribution	(100)	(600)
Sales to Homeowners', Net	-	(157,481)
Depreciation	4,036	1,933
Mortgage Loan Discount Amortization	(22,340)	(17,121)
Changes in Operating Assets & Liabilities		
(Increase) Decrease in Accounts Receivable	(262)	(882)
(Increase) Decrease in Pledge Receivable	(5,672)	-
(Increase) Decrease in Gift Cards	(178)	-
(Increase) Decrease in Prepaid Insurance	330	(939)
(Increase) Decrease in Construction in Progress	(36,545)	(1,264)
Increase (Decrease) in Accounts Payable	4,297	33
Increase (Decrease) in Sales Tax Payable	459	703
Increase (Decrease) in Accrued Payroll Liabilities	475	700
Net Cash Provided By (Used in) Operating Activities	<u>17,059</u>	<u>(72,737)</u>
Cash Flows from Investing Activities		
Proceeds from the Sale of Stock	-	5,343
Cash Payments for the Purchase of Property	(4,225)	(9,663)
Mortgage Payments Received	71,693	29,711
Net Cash Provided by Investing Activities	<u>67,468</u>	<u>25,391</u>
Net Decrease in Cash and Cash Equivalents	84,527	(47,346)
Cash and Cash Equivalents, Beginning of Year	82,625	129,971
Cash and Cash Equivalents, End of Year	<u>167,152</u>	<u>82,625</u>

*See accompanying notes and independent auditors' report.*

**HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011 and 2010**

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.

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.



**HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010**

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted 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, 2011 and 2010, respectively.

For purposes of the statements of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents.

Contributions Receivable

Contributions are recognized as contribution revenue when the donor makes a promise (a pledge) to give to the Organization that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which they contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Pledges receivable at June 30, 2011 was \$5,672 and there were no pledges receivable at June 30, 2010.

Accounts Receivable

Accounts receivable consist mainly of amounts due from partner families for escrow deposits made on their behalf. All amounts are considered collectible and there is no allowance for doubtful accounts. Amounts deemed to be uncollectible are written off in the period they are deemed uncollectible.

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



**HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010**

Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities as program costs.

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 that assist the organization.

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.

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, 2009, 2010 and 2011.



HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010

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.

Mortgage receivables are as follows:

June 30,	<i>2011</i>	<i>2010</i>
Mortgages receivable at face value	\$451,711	\$523,404
Unamortized discounts on mortgages	<u>(175,425)</u>	<u>(197,765)</u>
	<u>\$276,286</u>	<u>\$325,639</u>

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

2012	\$26,021
2013	26,021
2014	26,021
2015	26,021
2016	26,021
Thereafter	<u>321,606</u>
Total	<u>\$451,711</u>

Note 3 - Property and Equipment

Property and equipment consists of the following:	<i>2011</i>	<i>2010</i>
Office equipment and fixtures	\$5,405	\$1,180
Vehicles	<u>9,083</u>	<u>9,083</u>
	14,488	10,263
Accumulated depreciation	<u>(5,969)</u>	<u>(1,933)</u>
	<u>\$8,519</u>	<u>\$8,330</u>

Note 4 - Transactions with Habitat International

The Organization quarterly 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, 2011 and 2010, the Organization contributed \$3,996 and \$3,075, respectively to Habitat International. This amount is included in Program Service Expense in the Statement of Activities.



**HANCOCK COUNTY HABITAT FOR HUMANITY
 NOTES TO THE FINANCIAL STATEMENT
 FOR THE YEAR ENDED JUNE 30, 2011 AND 2010**

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. During the year ended June 30, 2011 and 2010 the Restore contributed a net operating profit of \$23,934 and \$3,159, respectively.

Note 6 - 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. During the year ended June 30, 2011 Habitat did collect \$15,408 from a second mortgage that was paid off early.

Effective August 1, 2010, Hancock County Habitat entered into a lease agreement to lease space for its retail thrift store and office at a monthly rental of \$1,789.80 for a lease term ending July 31, 2011. Effective August 1, 2011, Habitat renewed the lease at a monthly rental of \$1,952.50 for a lease term ending July 31, 2012.

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

Year Ended June 30, 2012	\$23,267
Year Ended June 30, 2013	\$ 1,953

Note 7 – Temporarily Restricted Net Assets

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

	<u>2011</u>
Land Purchase	12,500
Building Project in Blue Hill	1,000
Building Project – House # 16	1,554
Equipment Purchase	<u>500</u>
	<u>\$15,554</u>



**HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
FOR THE YEAR ENDED JUNE 30, 2011 AND 2010**

Note 8: Subsequent Events Measurement Date

The Hancock County Habitat for Humanity monitored and evaluated any subsequent events for footnot disclosures or adjustments required in its financial statements from the year end of June 30, 2011 through December 12, 2011, the date on which the financial statements were issued.

Note 9: 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, 2010 from which the summarized information was derived.



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

Schedule 1

	2011	2010
Sales Revenue	<u>77,080</u>	<u>41,205</u>
Expense		
Insurance	636	1,157
Rent	21,211	18,407
Utilities	5,550	3,935
Property Tax	2,601	1,887
Auto	5,320	3,574
Supplies	438	1,088
Wages	13,244	5,632
Payroll Taxes	1,013	392
Advertising	1,329	242
Credit Card Processing Fees	992	1,144
Start up costs	-	534
Miscellaneous	812	54
Total Expense	<u>53,146</u>	<u>38,046</u>
Net Restore Revenue	<u><u>23,934</u></u>	<u><u>3,159</u></u>



See independent auditors' report.