

HANCOCK COUNTY HABITAT FOR HUMANITY
Independent Auditors' Report
For the Year Ended
June 30, 2012
with Summarized Information
For the Year Ended
June 30, 2011



HORTON, McFARLAND & VEYSEY, LLC

CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

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(1925 - 2010)
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December 27, 2012

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, 2012, 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 Hancock County Habitat for Humanity's 2011 financial statements and, in our report dated December 12, 2011, 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, 2012, 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 conducted for the purpose of forming an opinion on the financial statements as a whole. The schedule of activity - Restore on page 12 is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole.

Horton McFarland & Veysey

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

<i>Assets</i>	2012	Restated 2011
Current Assets:		
Cash and Cash Equivalents	123,270	167,152
Accounts Receivable	-	1,144
Pledge Receivable	-	5,672
Prepaid Insurance	1,008	609
Security Deposit	2,000	-
Home Depot Gift Card	-	178
Construction in Progress	71,668	37,909
Mortgage Notes Receivable - Current	29,986	26,021
Discount on Current Non-Interest Bearing Mortgage Loans	(16,912)	(15,720)
Total Assets	<u>211,020</u>	<u>222,965</u>
Noncurrent Assets:		
Mortgage Notes Receivable - Noncurrent	493,899	425,690
Discount on Noncurrent Non-Interest Bearing Mortgage Loans	(177,836)	(159,705)
Land Held for Development	56,000	54,577
Equipment, Net of Accumulated Depreciation	5,381	8,519
Total Noncurrent Assets	<u>377,444</u>	<u>329,081</u>
Total Assets	<u>588,464</u>	<u>552,046</u>
<i>Liabilities and Net Assets</i>		
Current Liabilities:		
Accounts Payable	2,592	4,330
Sales Tax Payable	1,032	1,162
Accrued Payroll Liabilities	5,572	5,350
Total Current Liabilities	<u>9,196</u>	<u>10,842</u>
Net Assets:		
Unrestricted	571,768	525,650
Temporarily Restricted	7,500	15,554
Total Net Assets	<u>579,268</u>	<u>541,204</u>
Total Liabilities and Net Assets	<u>588,464</u>	<u>552,046</u>

See accompanying notes and independent auditors' report.



Hancock County Habitat for Humanity
Statement of Activity
Year Ended June 30, 2012 with Summarized Financial Information
for the Year Ended June 30, 2011

	<i>Unrestricted</i>	<i>Temporarily Restricted</i>	<i>Total 2012</i>	<i>Summarized Information 2011</i>
Support and Revenues:				
Sales to Homeowners, (Net of Discount on Mortgages of \$36,520)	62,589		62,589	-
Cash Contributions	92,235	-	92,235	12,909
Stock Contributions		-	-	2,790
Grants and Bequests	5,686	6,000	11,686	54,327
Contributed Services, Materials and Land	23,284		23,284	100
Fundraising	19,748		19,748	19,268
Interest Income	566		566	712
Mortgage Loan Discount Amortization	17,196		17,196	22,340
Second Mortgages Collected	-	-	-	15,408
Restore, Net of Expense	5,128		5,128	23,934
Net Assets Released from Restriction	14,054	(14,054)	-	-
	<u>240,486</u>	<u>(8,054)</u>	<u>232,432</u>	<u>151,788</u>
Expenses:				
Program Services	137,056	-	137,056	30,629
Supporting Services	23,919	-	23,919	21,218
Fundraising	33,393	-	33,393	27,382
	<u>194,368</u>	<u>-</u>	<u>194,368</u>	<u>79,229</u>
Change in Net Assets	46,118	(8,054)	38,064	72,559
Beginning Net Assets (restated)	525,650	15,554	541,204	468,645
Ending Net Assets	<u>571,768</u>	<u>7,500</u>	<u>579,268</u>	<u>541,204</u>

See accompanying notes and independent auditors' report.



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

	2012	2011
Cash Flows from Operating Activities		
Increase (Decrease) in Net Assets	38,064	72,559
Adjustments to Reconcile Increase (Decrease) in Net Assets to Net Cash Provided By (Used In) Operating Activities:		
Noncash Contribution	-	(100)
Sales to Homeowners', Net	(62,589)	-
Depreciation	3,138	4,036
Mortgage Loan Discount Amortization	(17,196)	(22,340)
Changes in Operating Assets & Liabilities		
(Increase) Decrease in Accounts Receivable	1,144	(262)
(Increase) Decrease in Pledge Receivable	5,672	(5,672)
(Increase) Decrease in Prepaid Insurance	(399)	330
(Increase) Decrease in Security Deposit	(2,000)	-
(Increase) Decrease in Gift Cards	178	(178)
(Increase) Decrease in Construction in Progress	(33,760)	(36,545)
Increase (Decrease) in Accounts Payable	(1,738)	4,297
Increase (Decrease) in Sales Tax Payable	(130)	459
Increase (Decrease) in Accrued Payroll Liabilities	222	475
Net Cash Provided By (Used in) Operating Activities	<u>(69,394)</u>	<u>17,059</u>
Cash Flows from Investing Activities		
Cash Payments for the Purchase of Property	(24,000)	(4,225)
(Increase) Decrease in Land Held for Investment	22,577	-
Mortgage Payments Received	26,935	71,693
Net Cash Provided by Investing Activities	<u>25,512</u>	<u>67,468</u>
Net Decrease in Cash and Cash Equivalents	(43,882)	84,527
Cash and Cash Equivalents, Beginning of Year	<u>167,152</u>	<u>82,625</u>
Cash and Cash Equivalents, End of Year	<u><u>123,270</u></u>	<u><u>167,152</u></u>

See accompanying notes and independent auditors' report.



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

	2012			Total
	Supporting Services			
	Program 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>

	2011			Total
	Supporting Services			
	Program Services	Management and 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>

See accompanying notes and independent auditors' report.



HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2012

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, 2012

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, 2012 and 2011, respectively.

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

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. There were no accounts receivable at June 30, 2012 and at June 30, 2011 accounts receivable were \$1,144.

Promises to Give

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. There were no pledges receivable at June 30, 2012 and at June 30, 2011 pledges receivable were \$5,672.

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



Note 1 - Summary of Significant Accounting Policies (Continued)

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.

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.

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.

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.



HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2012

Note 1 - Summary of Significant Accounting Policies (Continued)

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, 2010, 2011 and 2012.

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 as of June 30, are as follows:

	2012	2011
Mortgages receivable at face value	\$523,885	\$451,711
Unamortized discounts on mortgages	<u>(194,748)</u>	<u>(175,425)</u>
	<u>\$329,137</u>	<u>\$276,286</u>

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

2013	\$ 29,986
2014	29,986
2015	29,986
2016	29,986
2017	29,986
Thereafter	<u>373,955</u>
Total	<u>\$523,885</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. At June 30, 2012, the contribution amount had not yet been calculated or paid. For the year ended June 30, 2011, the Organization contributed \$3,996 to build homes in Romania. This amount is included in Program Service Expense in the Statement of Activities.



**HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2012**

Note 4 - Property and Equipment

Property and equipment consists of the following:

	2012	2011
Office Equipment and Fixtures	\$5,405	\$5,405
Vehicles	<u>9,083</u>	<u>9,083</u>
	14,488	14,488
Accumulated Depreciation	<u>(9,107)</u>	<u>(5,969)</u>
	<u>\$5,381</u>	<u>\$8,519</u>

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:

	2012	2011
Gross Proceeds	70,194	77,080
Operating Costs	<u>65,066</u>	<u>53,146</u>
Net Proceeds	<u>\$ 5,128</u>	<u>\$23,934</u>

Note 6 – Temporarily Restricted Net Assets

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

	2012	2011
Land Purchase	-	12,500
Building Project – House # 16	-	1,554
Building Project in Blue Hill	1,000	1,000
Equipment Purchase	500	500
Vista Volunteer Coordinator	<u>6,000</u>	<u>-</u>
	<u>\$7,500</u>	<u>\$15,554</u>

Note 7 - 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.



**HANCOCK COUNTY HABITAT FOR HUMANITY
NOTES TO THE FINANCIAL STATEMENT
JUNE 30, 2012**

Note 8 – Operating Lease

Effective August 1, 2011, Hancock County Habitat renewed a lease agreement to lease space for its retail thrift store and office, on Main Street in Ellsworth, Maine, at a monthly rental of \$1,789.80 for a lease term ending July 31, 2012.

Effective September 1, 2012, Hancock County Habitat entered into a new 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, 2013	\$ 21,790
Year Ended June 30, 2014	\$ 4,000

Rent expense was \$25,220 and \$21,211 for June 30, 2012 at 2011, respectively.

Note 9 - 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, 2012, through December 27, 2012, the date on which the financial statements were issued.

Note 10 - Restatement

The June 30, 2011 financial statements contained land held for investments of \$25,000 that should have been reclassified in 2005 when the Curtis family purchased their home from Hancock County Habitat for Humanity. The unrestricted net assets and land held for investment have been reduced by \$25,000 to reflect this change.

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, 2011 from which the summarized information was derived.



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

Schedule 1

	2012	2011
Sales Revenue	<u>70,194</u>	<u>77,080</u>
Expense		
Insurance	484	636
Rent	25,220	21,211
Utilities	5,126	5,550
Property Tax	2,225	2,601
Auto	6,497	5,320
Supplies	820	438
Wages	20,783	13,244
Payroll Taxes	1,524	1,013
Advertising	822	1,329
Credit Card Processing Fees	1,218	992
Miscellaneous	347	812
Total Expense	<u>65,066</u>	<u>53,146</u>
Net Restore Revenue	<u><u>5,128</u></u>	<u><u>23,934</u></u>

See independent auditors' report.

