

HABITAT FOR HUMANITY OF SUMMIT COUNTY, INC.
(A NON-PROFIT ORGANIZATION)

FINANCIAL STATEMENTS
WITH
INDEPENDENT AUDITOR'S REPORT

March 31, 2013

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INDEPENDENT AUDITOR'S REPORT

Board of Trustees
Habitat for Humanity of Summit County, Inc.
Akron, Ohio

We have audited the accompanying financial statements of Habitat for Humanity of Summit County, Inc. (a non-profit organization) which comprise the statement of financial position as of March 31, 2013 and 2012, and the related statements of changes in net assets, 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 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 of 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 Summit County, Inc. as of March 31, 2013 and 2012, and the changes in its net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in blue ink that reads "Meaden & Moore LTD." The signature is written in a cursive, flowing style.

MEADEN & MOORE, LTD.
Certified Public Accountants

August 15, 2013
Akron, Ohio

STATEMENT OF FINANCIAL POSITION

Habitat for Humanity of Summit County, Inc.

	March 31 2013		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 306,595	\$ -	\$ 306,595
Receivables:			
Mortgages receivable - net of discount	2,123,445	-	2,123,445
Grants and other receivables	-	-	-
Pledges receivable	26,042	-	26,042
Inventory	165,952	-	165,952
Prepaid expenses and deposits	54,487	-	54,487
Construction in progress - net of discount	306,742	-	306,742
Homes under lease - net of discount	160,823	-	160,823
Land, buildings and equipment - net	2,129,002	-	2,129,002
Intangible assets	6,005	-	6,005
Land held for resale	334,944	-	334,944
Homes held for resale - net of discount	<u>164,704</u>	<u>-</u>	<u>164,704</u>
Total Assets	<u>\$ 5,778,741</u>	<u>\$ -</u>	<u>\$ 5,778,741</u>
LIABILITIES:			
Accounts payable	\$ 64,837	\$ -	\$ 64,837
Accrued expenses	52,723	-	52,723
Long-term debt	<u>1,006,769</u>	<u>-</u>	<u>1,006,769</u>
Total Liabilities	1,124,329	-	1,124,329
NET ASSETS	<u>4,654,412</u>	<u>-</u>	<u>4,654,412</u>
Total Liabilities and Net Assets	<u>\$ 5,778,741</u>	<u>\$ -</u>	<u>\$ 5,778,741</u>

See accompanying notes.

	March 31 2012		
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
ASSETS:			
Cash and cash equivalents	\$ 450,972	\$ 344,477	\$ 795,449
Receivables:			
Mortgages receivable - net of discount	2,039,552	-	2,039,552
Grants and other receivables	100,000	-	100,000
Pledges receivable	-	71,767	71,767
Inventory	203,091	-	203,091
Prepaid expenses and deposits	43,067	-	43,067
Construction in progress - net of discount	283,161	-	283,161
Homes under lease - net of discount	59,429	-	59,429
Land, buildings and equipment - net	2,158,466	-	2,158,466
Intangible assets	-	-	-
Land held for resale	380,741	-	380,741
Homes held for resale - net of discount	85,438	-	85,438
	<u>\$ 5,803,917</u>	<u>\$ 416,244</u>	<u>\$ 6,220,161</u>
Total Assets			
LIABILITIES:			
Accounts payable	\$ 32,964	\$ -	\$ 32,964
Accrued expenses	58,958	-	58,958
Long-term debt	1,244,642	-	1,244,642
	<u>1,336,564</u>	<u>-</u>	<u>1,336,564</u>
Total Liabilities			
NET ASSETS	<u>4,467,353</u>	<u>416,244</u>	<u>4,883,597</u>
Total Liabilities and Net Assets	<u>\$ 5,803,917</u>	<u>\$ 416,244</u>	<u>\$ 6,220,161</u>

STATEMENT OF CHANGES IN NET ASSETS

Habitat for Humanity of Summit County, Inc.

For the Years Ended March 31, 2013 and 2012

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Net Assets - March 31, 2011	\$ 4,003,623	\$ 428,080	\$ 4,431,703
Change in net assets - 2012	<u>463,730</u>	<u>(11,836)</u>	<u>451,894</u>
Net Assets - March 31, 2012	4,467,353	416,244	4,883,597
Change in net assets - 2013	<u>187,059</u>	<u>(416,244)</u>	<u>(229,185)</u>
Net Assets - March 31, 2013	<u>\$ 4,654,412</u>	<u>\$ -</u>	<u>\$ 4,654,412</u>

See accompanying notes.

STATEMENT OF ACTIVITIES

Habitat for Humanity of Summit County, Inc.

	For the Year Ended March 31 2013		
	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE:			
Contributions and grants	\$ 651,739	\$ 361,697	\$ 1,013,436
Capital campaign contributions	-	1,125	1,125
Special events - net	35,519	-	35,519
Mortgages and loans issued to homeowners	567,983	-	567,983
Imputed interest from discounted mortgages	156,365	-	156,365
Sales of merchandise - net	726,797	-	726,797
Loss on sale of homes and lots	(97,698)	-	(97,698)
Investment income	1,088	-	1,088
Other income	31,079	-	31,079
	<u>2,072,872</u>	<u>362,822</u>	<u>2,435,694</u>
Total Operating Support and Revenue			
Net Assets Released from Restrictions:			
Satisfaction of program restrictions	<u>779,066</u>	<u>(779,066)</u>	<u>-</u>
	<u>2,851,938</u>	<u>(416,244)</u>	<u>2,435,694</u>
EXPENSES:			
Program Services	2,117,569	-	2,117,569
General and Administrative	409,073	-	409,073
Fundraising and Development	138,237	-	138,237
	<u>2,664,879</u>	<u>-</u>	<u>2,664,879</u>
Total Expenses			
Change in Net Assets	<u>\$ 187,059</u>	<u>\$ (416,244)</u>	<u>\$ (229,185)</u>

See accompanying notes.

For the Year Ended March 31
2012

	Unrestricted	Temporarily Restricted	Total
OPERATING SUPPORT AND REVENUE:			
Contributions and grants	\$ 911,809	\$ 468,707	\$ 1,380,516
Capital campaign contributions	-	114,182	114,182
Special events - net	60,905	-	60,905
Mortgages and loans issued to homeowners	258,592	-	258,592
Imputed interest from discounted mortgages	130,000	-	130,000
Sales of merchandise - net	568,847	-	568,847
Loss on sale of homes and lots	(28,643)	-	(28,643)
Investment income	2,153	-	2,153
Other income	20,139	-	20,139
	<u>1,923,802</u>	<u>582,889</u>	<u>2,506,691</u>
Total Operating Support and Revenue			
Net Assets Released from Restrictions:			
Satisfaction of program restrictions	<u>594,725</u>	<u>(594,725)</u>	<u>-</u>
	2,518,527	(11,836)	2,506,691
EXPENSES:			
Program Services	1,557,392	-	1,557,392
General and Administrative	371,678	-	371,678
Fundraising and Development	125,727	-	125,727
	<u>2,054,797</u>	<u>-</u>	<u>2,054,797</u>
Total Expenses			
Change in Net Assets	<u>\$ 463,730</u>	<u>\$ (11,836)</u>	<u>\$ 451,894</u>

STATEMENT OF FUNCTIONAL EXPENSES

Habitat for Humanity of Summit County, Inc.

For the Year Ended March 31
2013

	Fundraising			
	Program	General and	and	
	Services	Administrative	Development	Total
Cost of homes	\$ 821,048	\$ -	\$ -	\$ 821,048
Discount on mortgages issued, including anticipated discount on construction in progress	438,356	-	-	438,356
Salaries and wages	458,754	136,783	84,300	679,837
Payroll taxes	53,502	15,953	9,831	79,286
Employee benefits	100,005	29,818	18,377	148,200
Professional and contract services	17,253	17,250	9,338	43,841
Rent	7,237	7,236	-	14,473
Utilities	35,089	35,089	-	70,178
Repairs and maintenance	15,071	15,070	-	30,141
Equipment expenses	5,715	5,714	-	11,429
Property taxes	3,769	3,769	-	7,538
Depreciation	35,028	35,027	-	70,055
Office supplies	4,013	4,013	-	8,026
Printing and publications	4,282	4,282	8,565	17,129
Postage	4,293	4,293	-	8,586
Insurance	28,857	28,857	-	57,714
Advertising and marketing	3,913	3,912	7,826	15,651
Transportation and travel	29,061	9,687	-	38,748
Conferences and meetings	1,336	1,335	-	2,671
Bank service charges	6,999	6,998	-	13,997
Interest expense	30,144	30,144	-	60,288
Miscellaneous operating expenses	13,844	13,843	-	27,687
Total Expenses	<u>\$ 2,117,569</u>	<u>\$ 409,073</u>	<u>\$ 138,237</u>	<u>\$ 2,664,879</u>

See accompanying notes.

For the Year Ended March 31
2012

	Program Services	General and Administrative	Fundraising and Development	Total
Cost of homes	\$ 409,932	\$ -	\$ -	\$ 409,932
Discount on mortgages issued, including anticipated discount on construction in progress	424,978	-	-	424,978
Salaries and wages	352,190	105,039	64,722	521,951
Payroll taxes	44,411	13,245	8,161	65,817
Employee benefits	81,029	24,166	14,891	120,086
Professional and contract services	25,748	25,745	13,936	65,429
Rent	2,887	2,887	-	5,774
Utilities	31,212	31,211	-	62,423
Repairs and maintenance	15,307	15,307	-	30,614
Equipment expenses	6,243	6,243	-	12,486
Property taxes	6,345	6,344	-	12,689
Depreciation	33,009	33,008	-	66,017
Office supplies	2,995	2,995	-	5,990
Printing and publications	6,298	6,298	12,596	25,192
Postage	6,579	6,578	-	13,157
Insurance	19,321	19,320	-	38,641
Advertising and marketing	5,710	5,710	11,421	22,841
Transportation and travel	23,421	7,807	-	31,228
Conferences and meetings	5,757	5,757	-	11,514
Bank service charges	7,258	7,258	-	14,516
Interest expense	37,856	37,855	-	75,711
Miscellaneous operating expenses	8,906	8,905	-	17,811
	<u>\$ 1,557,392</u>	<u>\$ 371,678</u>	<u>\$ 125,727</u>	<u>\$ 2,054,797</u>

STATEMENT OF CASH FLOWS

Habitat for Humanity of Summit County, Inc.

	For the Years Ended March 31	
	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contributors	\$ 2,012,438	\$ 2,500,103
Interest received	1,088	2,153
Cash paid to suppliers and employees	(2,257,390)	(2,261,858)
Interest paid	(60,288)	(75,711)
Net Cash Provided by (Used in) Operating Activities	(304,152)	164,687
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(203,211)	(76,890)
Land purchased - held for resale	-	(158,480)
Proceeds on sale of houses and lots	28,375	528
Homes purchased - held for resale	(47,981)	-
Mortgage and loan payments received	281,993	227,116
Net Cash Provided by (Used in) Investing Activities	59,176	(7,726)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Additional borrowings on long-term debt	599,951	150,000
Repayment of long-term debt	(837,824)	(235,943)
Purchase of intangible	(6,005)	-
Net Cash Used in Financing Activities	(243,878)	(85,943)
Increase (Decrease) in Cash and Cash Equivalents	(488,854)	71,018
Cash and Cash Equivalents - Beginning of the Year	795,449	724,431
Cash and Cash Equivalents - End of the Year	\$ 306,595	\$ 795,449

See accompanying notes.

	For the Years Ended March 31	
	<u>2013</u>	<u>2012</u>
RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Change in net assets	\$ (229,185)	\$ 451,894
Adjustments to Reconcile Net Assets to Net Cash		
Provided by Operating Activities:		
Depreciation	70,055	66,017
Mortgage loan discount amortization	(156,365)	(130,000)
Loss on sale of houses and lots	97,698	28,643
Forgiveness of mortgage receivable	11,297	-
Donated land	(61,920)	(45,950)
Mortgages and loans issued	(567,893)	(188,000)
Discount on mortgages and leases issued	331,310	189,709
Discount on construction in progress	24,545	233,106
Discount on homes held for resale	82,501	2,163
Increase (Decrease) in Cash from Changes in:		
Grants and other receivables	100,000	25,000
Pledges receivable	45,725	158,565
Construction in progress	(103,277)	(462,555)
Inventory	37,139	(173,841)
Prepaid expenses and deposits	(11,420)	(6,604)
Accounts payable	31,873	14,000
Accrued expenses	(6,235)	2,540
	<u>(74,967)</u>	<u>(287,207)</u>
 Total Adjustments	 <u>(74,967)</u>	 <u>(287,207)</u>
 Net Cash Provided by (Used in) Operating Activities	 <u>\$ (304,152)</u>	 <u>\$ 164,687</u>
 Supplemental Schedule of Noncash Investing and Financing Activities:		
Mortgage receivable forgiven on redeemed	<u>\$ 121,298</u>	<u>\$ -</u>
Land transferred to construction in progress	<u>\$ 117,878</u>	<u>\$ 142,600</u>
Leased homes transferred from construction in progress	<u>\$ 155,888</u>	<u>\$ -</u>
Leased home transferred to mortgage	<u>\$ -</u>	<u>\$ 80,659</u>
Homes held for resale converted to mortgages	<u>\$ -</u>	<u>\$ 44,250</u>
Homes held for resale converted to lease	<u>\$ 48,290</u>	<u>\$ -</u>
Homes held for resale transferred to land	<u>\$ 6,178</u>	<u>\$ -</u>
Homes held for resale transferred from construction in progress	<u>\$ 173,029</u>	<u>\$ -</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies

Nature of the Organization:

Habitat for Humanity of Summit County, Inc. ("HFHSC" or "Organization"), a non-profit organization, is an affiliate of Habitat for Humanity International, Inc. ("International"), an ecumenical Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and make decent shelter a matter of conscience with people everywhere. Although International assists with information resources, training, publications, prayer support and in other ways, HFHSC is primarily and directly responsible for its own operations.

HFHSC, through its many volunteers, constructs affordable housing and transfers the homes to qualified families at cost by providing non-interest bearing mortgage loans. HFHSC is primarily responsible for the legal, organizational, fundraising, family selection and nurture, financial and construction aspects of the work.

The Organization provides all homeowners in their program with financial and homeowner education classes on a variety of subjects in order to help ensure responsible and successful homeownership through the program, thereby minimizing the number of foreclosures produced.

Use of Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Classification of Net Assets:

In accordance with U.S. GAAP, contributions are classified as unrestricted, temporarily restricted and permanently restricted based on donor specifications. Assets, liabilities, revenue and gains are presented under these classifications. Designations by the Board, while separately stated, are considered unrestricted.

Grants and contributions received with donor-imposed restrictions are recorded as unrestricted if the restrictions are expected to be met within the same period. This policy is also followed for investment income received with donor-imposed restrictions.

No endowment funds, as defined by FASB ASC 958, are held by the Organization.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Cash and Cash Equivalents:

For the purposes of the Statement of Cash Flows, HFHSC considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents. Temporarily uninvested cash in investment accounts is considered an investment rather than a cash equivalent.

At times during the year, HFHSC maintained funds on deposit at its banks in excess of FDIC insurance limits.

Mortgages Receivable and Discount:

As homes are transferred to qualified families, HFHSC allows qualified families to purchase homes at cost subject to mortgages which bear no interest. These mortgages are for terms of 15 to 30 years. The discount of the mortgages is required to reflect economic benefit of the zero-interest-mortgage to the qualified families. The discount recorded has been estimated based on the prevailing interest, as determined by International, in the period of origination and payment terms defined in the mortgage. A portion of the discount is amortized as interest income each year the mortgage is outstanding.

	2013			2012
	Total	Current Portion	Long-Term Portion	Total
Mortgage receivable - gross	\$ 4,466,259	\$ 282,316	\$ 4,183,943	\$ 4,312,954
Discount	<u>(2,342,814)</u>	<u>(143,981)</u>	<u>(2,198,833)</u>	<u>(2,273,402)</u>
Mortgage receivable - net	<u>\$ 2,123,445</u>	<u>\$ 138,335</u>	<u>\$ 1,985,110</u>	<u>\$ 2,039,552</u>

During the year ended March 31, 2013, six new homes were transferred to qualified families recognizing \$553,000 of revenue from mortgage transfers. During the year ended March 31, 2012, two new homes, one rehabilitated home and one lease were transferred to qualified families recognizing \$245,000 of revenue from mortgage transfers.

No allowance for bad debts is recorded because HFHSC feels all costs would be recovered through the resale of the house in the event of foreclosure. At March 31, 2013, there were no mortgages in foreclosure.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Grants and Other Receivables:

Grants and other receivables are stated at the amount management expects to collect. Management provides for uncollectible amounts based on its assessment of the current status of individual accounts.

Pledges Receivable:

The Organization launched a capital campaign during 2009 to fund the purchase and renovation of its new facilities. The campaign was completed in December 2011 and raised approximately \$2,000,000. Pledges were recorded in the Statement of Financial Position when the Organization was notified of the pledge and allowances are provided for amounts estimated as uncollectible. Management has determined all pledges to be collectible for the years ended March 31, 2013 and 2012.

Fair Value Measurements:

As defined in FASB ASC 820, "Fair Value Measurements", fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. In determining fair value, the Organization utilizes certain assumptions that market participants would use in pricing the asset or liability, including assumptions about risk and/or the risks inherent in the inputs to the valuation technique. These inputs can be readily observable, market corroborated or generally unobservable firm inputs. The Organization utilizes valuation techniques that maximize the use of observable inputs and minimize the use of unobservable inputs. Based on the examination of the inputs used in the valuation techniques, the Organization is required to provide the following information according to the fair value hierarchy. The fair value hierarchy ranks the quality and reliability of the information used to determine fair values. Financial assets and liabilities carried at fair value will be classified and disclosed in one of the following three categories:

Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization has the ability to access.

Level 2: Inputs to the valuation methodology include:

- * Quoted prices for similar assets or liabilities in active markets;
- * Quoted prices for identical or similar assets or liabilities in inactive markets;
- * Inputs other than quoted prices that are observable for the asset or liability;
- * Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Fair Value Measurements, Continued:

The following is a description of the valuation methodology used for land held for resale and homes held for resale measured at fair value, which is classified as Level 2.

Land Held for Resale:

Property and land donated to HFHSC for the purpose of resale is recorded at the locality's assessed value for property tax purposes, which approximates fair market value.

There were 29 lots totaling \$334,944 (2013) and 27 lots totaling \$380,741 (2012).

Homes Held for Resale:

HFHSC had five homes in Homes Held for Resale at year-end.

During 2013, the Organization completed work on two homes that were included in construction in process in 2012. The remaining three homes were in foreclosure in 2012 and repurchased through sheriff's sale in 2013. The properties are carried on the books as assets at the mortgage value or cost, less the unamortized discount, which approximates fair value at \$164,704.

Escrow Liability:

The Organization collects escrow amounts from qualified families for the payment of taxes and insurance. These amounts are held in escrow pending the payment of expenses relating to the funds received.

Funds held in escrow at year-end were \$42,363 (2013) and \$52,310 (2012). These amounts are included in accrued expenses.

Inventories:

Inventories consist of purchased and donated raw materials used in the construction of partner family homes. The value of in-kind donations included in inventory are recorded at an estimated fair market value, as determined by management, at the time of receipt.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Inventories, Continued:

ReStore (retail store for the sale of donated goods) inventories consist of 100% contributed inventory. The management of HFHSC has adopted a policy that no valuation be placed on material received from the public held for sale in the ReStore, other than the related revenue at the time of sale to the public. This recommendation is made on the theory that no verifiable, objective basis of valuation of these materials can be determined. As a result of this policy, ReStore inventories are not valued in the accompanying Statement of Financial Position.

Revenue Recognition:

Contributions and grants are recognized when awarded as unrestricted, temporarily restricted or permanently restricted in accordance with donor specifications. When a restriction expires through accomplishment of purpose or passage of time, the restricted net assets are reclassified to unrestricted and reported in the Statement of Activities as net assets released from restrictions.

Donated Goods and Services and Donated Land:

HFHSC receives various donated goods and services each year. The value of in-kind donations are recorded at an estimated fair market value, as determined by management, at the time of receipt of the goods or services. No amount is recorded if no objective basis is available to measure the value of the good or service, as determined by management.

Donated goods and services and donated land, included in contributions and grants revenue, was \$102,219 (2013) and \$214,545 (2012).

Construction in Progress:

Costs incurred relating to homes under construction at the end of each year are recorded as construction in progress. Construction costs include the cost of materials and labor purchased by HFHSC. Donated materials are recorded based on their estimated value at the time of receipt. No amounts have been recorded in construction in progress for donated services, in as much as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to the construction of the homes.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Construction in Progress, Continued:

	2013		2012	
	Number	Cost	Number	Cost
Homes Under Construction -				
Beginning of the Year	11	\$ 577,879	2	\$ 120,808
Additional costs incurred on				
beginning homes	-	518,107	-	47,918
Homes started during				
the year	5	534,401	12	672,909
Homes transferred during				
the year	(10)	(1,004,382)	(3)	(263,756)
Homes Under Construction -				
End of the Year	<u>6</u>	<u>626,005</u>	<u>11</u>	<u>577,879</u>
Discount		<u>(319,263)</u>		<u>(294,718)</u>
Construction in progress - net		<u>\$ 306,742</u>		<u>\$ 283,161</u>

Anticipated Discount on Future Home Builds:

Discounts are recognized on homes that HFHSC has committed to build for qualified families as costs are incurred. The value of construction in progress is discounted by the average discounted value of mortgages issued (51%).

Homes Under Lease:

Homes under lease relates to completed homes occupied by qualified families under lease terms for a period of time before the actual sale of the home. Lease payments received by HFHSC are credited against the purchase price of the home. This discount is recorded to reflect the economic benefit of the zero-interest-mortgage to the purchaser.

	2013	2012
	<u>4 Homes</u>	<u>1 Home</u>
Lease value of home - gross	\$ 328,210	\$ 121,283
Discount	<u>(167,387)</u>	<u>(61,854)</u>
	<u>\$ 160,823</u>	<u>\$ 59,429</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Property and Equipment:

Property and equipment purchased by HFHSC are carried at cost. Donated property and equipment are recorded at estimated fair value at the date of donation. Expenditures for maintenance and repairs are charged to income as incurred. Additions and betterments are capitalized. The cost and related accumulated depreciation of properties sold or otherwise disposed of are removed from the accounts and any gain or loss is reflected in the current year's activities.

	<u>2013</u>	<u>2012</u>
Land, buildings and improvements	\$ 2,126,884	\$ 2,126,884
Equipment	12,222	12,222
Office furniture	103,130	93,267
Vehicles	<u>134,426</u>	<u>103,698</u>
	2,376,662	2,336,071
Less: Accumulated depreciation	<u>(247,660)</u>	<u>(177,605)</u>
	<u>\$ 2,129,002</u>	<u>\$ 2,158,466</u>
Depreciation Expense	<u>\$ 70,055</u>	<u>\$ 66,017</u>

The Organization primarily follows the straight-line method of depreciation utilizing the following lives:

<u>Class</u>	<u>Years</u>
Buildings and improvements	5 - 39
Equipment	5 - 10
Office furniture	3 - 10
Vehicles	5

Vacation Pay:

Vacation pay is expensed when paid. Accrual of vacation pay as earned would not have a material effect on the financial statements.

Functional Expense Allocations:

Expenses are charged to functional areas based on specific identification when possible. Expenses that cannot be specifically identified to a function are allocated to the functional areas based on factors such as direct relationship of expense, time spent by employees and square footage of space used for various programs.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Functional Expense Allocations, Continued:

Program Services:

HFHSC strives to eliminate sub-standard housing through life-skill and homeowner education programs, neighborhood development, and raising awareness of housing issues and solutions. HFHSC constructs affordable housing, provides homeowner education to its partner families, and transfers the homes to qualified families at cost by providing non-interest bearing mortgage loans. The success of the Organization is ensured by family educational programs, volunteer participation and support of the donor community. These homes serve as catalysts for comprehensive neighborhood development projects in neighborhoods in need.

In addition, the ReStore (public retail store for sale of donated construction and home goods) program's primary goal is to raise money for HFHSC through sales revenue, while also reducing the amount of building materials deposited into landfills. Individuals, as well as construction companies, donate new or used unwanted building materials, keeping them from landfills; and local contractors and do-it-yourselfers then have the option to purchase materials and products at a reduced cost. All revenues go back to HFHSC to support home building programs.

General and Administrative:

Expenses incurred in the day-to-day operations of HFHSC.

Fundraising and Development:

Expenses incurred in raising additional funds for HFHSC.

Income Taxes:

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption granted by International and operates as a public charity.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

1 Summary of Significant Accounting Policies, Continued

Accounting for Uncertainty in Income Taxes:

The provisions of "Accounting for Uncertainty in Income Taxes" prescribe a recognition threshold and a measurement attribute for the financial statement recognition and measurement of tax positions taken or expected to be taken in a tax return. For those benefits to be recognized, a tax position must be more-likely-than-not to be sustained upon examination by taxing authorities. The amount recognized is measured as the amount of benefit that is greater than 50% likely of being realized upon ultimate settlement. The Organization recognizes interest and penalties accrued, if any, related to unrecognized tax uncertainties in income tax expense.

The Organization determined that there are no material uncertain tax positions.

The Organization files income tax returns in the United States and is subject to income tax examinations for its U.S. federal income tax returns for the preceding three fiscal years and, in general, is subject to state and local income tax examinations for the preceding three to four years.

Subsequent Events:

Management evaluates events occurring subsequent to the date of the financial statements in determining the accounting for and disclosure of transactions and events that affect the financial statements.

Subsequent events have been evaluated through August 15, 2013, which is the date the financial statements were available to be issued.

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

2 Long-Term Debt

	Current Portion	Total	
	2013	2013	2012
Note payable was entered into by the Organization on January 18, 2013, amounting to \$301,000. Principal and interest payments are due monthly in the amount of \$4,178. The note bears interest at 4.40% and matures on January 18, 2020. The note is secured by the related property.	\$ 37,749	\$ 294,804	\$ -
Note payable was entered into by the Organization and the City of Akron for sewer and water lines on August 16, 2012, amounting to \$13,529. Principal and interest payments are due monthly in the amount of \$147. The note bears interest at 5.38% and matures in October 2022. The City reserves the right to terminate sewer and water service in the event of default of the note.	1,081	13,188	-
Note payable was entered into by the Organization and the City of Akron for sewer and water lines on August 16, 2012, amounting to \$13,529. Principal and interest payments are due monthly in the amount of \$147. The note bears interest at 5.38% and matures in October 2022. The City reserves the right to terminate sewer and water service in the event of default of the note.	1,081	13,188	-
Note payable was entered into by the Organization on September 13, 2012, amounting to \$271,893. Principal and interest payments are due quarterly in the amount of \$14,609. The note bears interest at 4.50% and matures on December 31, 2017. The note is secured by mortgage receivables totaling \$1,193,861 at March 31, 2013.	48,050	248,662	-

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

2 Long-Term Debt, Continued

	Current Portion	Total	
	2013	2013	2012
Note payable with Habitat for Humanity of Ohio in the amount of \$150,000. Interest only payments at a rate of 4.00% are due quarterly with the unpaid principal balance and any accrued interest due on June 22, 2016. The note is secured by mortgage receivables amounting to \$176,263 at March 31, 2013.	-	150,000	150,000
Note payable was entered into by the Organization on June 3, 2009, amounting to \$850,000. Interest only payments were due monthly for 18 months, commencing January 1, 2010 in the amount of \$4,250. Beginning July 1, 2011, principal and interest payments were due monthly in the amount of \$19,962. The note bore interest at 6.00% and was to mature on June 1, 2015. The note was repaid in January 2013. The note was secured by the related property.	-	-	708,590
Note payable was entered into by the Organization on April 30, 2009, amounting to \$407,800. Principal and interest payments are due quarterly in the amount of \$17,528. The note bears interest at 5.30% and matures on June 1, 2016. The note is secured by mortgage receivables totaling \$1,022,248 at March 31, 2013.	60,269	208,057	265,234

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

2 Long-Term Debt, Continued

	Current Portion	Total	
	2013	2013	2012
Note payable was entered into by the Organization on November 9, 2007, amounting to \$270,600. Principal and interest payments are due quarterly in the amount of \$11,128. The note bears interest at 4.00% and matures in December 2014. The note is secured by mortgage receivables totaling \$716,001 at March 31, 2013.	42,145	74,873	115,374
Note payable was entered into by the Organization on September 30, 2010, amounting to \$7,473. Principal and interest payments are due monthly in the amount of \$143. The loan bears interest at 5.59% and matures in September 2015. The note is secured by the related vehicle.	1,533	3,997	5,444
Total Long-Term Debt	<u>\$ 191,908</u>	1,006,769	1,244,642
Less: Current portion		<u>191,908</u>	<u>305,319</u>
		<u>\$ 814,861</u>	<u>\$ 939,323</u>

Maturities of long-term debt are as follows:

<u>Year Ending</u>	<u>Long-Term Debt</u>
2014	\$ 191,908
2015	189,876
2016	314,004
2017	117,933
2018	47,549
Thereafter	<u>145,499</u>
Total	<u>\$ 1,006,769</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

3 Leases

The Organization has various lease agreements for office equipment through May 2017.

Rent expense was \$14,473 (2013) and \$5,774 (2012).

Minimum lease payments due under the operating lease obligations are due as follows:

2014	\$	13,704
2015		12,708
2016		12,708
2017		12,708
2018		<u>2,118</u>
Total	\$	<u><u>53,946</u></u>

4 Temporarily Restricted Net Assets

Temporarily restricted net assets consist of the following:

	2013			
	<u>Beginning</u> <u>Net Assets</u>	<u>Contributions</u> <u>and Investment</u> <u>Income</u>	<u>Net Assets</u> <u>Released from</u> <u>Restriction</u>	<u>Ending</u> <u>Net Assets</u>
Operating support for				
Adopt a House	\$ -	\$ 361,697	\$ (361,697)	\$ -
Capital Campaign	<u>416,244</u>	<u>1,125</u>	<u>(417,369)</u>	<u>-</u>
Total	<u>\$ 416,244</u>	<u>\$ 362,822</u>	<u>\$ (779,066)</u>	<u>\$ -</u>
	2012			
	<u>Beginning</u> <u>Net Assets</u>	<u>Contributions</u> <u>and Investment</u> <u>Income</u>	<u>Net Assets</u> <u>Released from</u> <u>Restriction</u>	<u>Ending</u> <u>Net Assets</u>
Operating support for				
Adopt a House	\$ 41,670	\$ 468,707	\$ (510,377)	\$ -
Capital Campaign	<u>386,410</u>	<u>114,182</u>	<u>(84,348)</u>	<u>416,244</u>
Total	<u>\$ 428,080</u>	<u>\$ 582,889</u>	<u>\$ (594,725)</u>	<u>\$ 416,244</u>

NOTES TO FINANCIAL STATEMENTS

Habitat for Humanity of Summit County, Inc.

5 Related Party Transactions

HFHSC is an affiliate of International. As an affiliate, HFHSC is encouraged to contribute a portion of its revenues to International for use in carrying out its mission around the world.

HFHSC contributions to International amounted to \$8,500 (2013) and \$5,453 (2012).

HFHSC is affiliated with Habitat for Humanity of Ohio. Through the affiliation, HFHSC is encouraged to support Habitat for Humanity of Ohio in carrying out its mission throughout the state.

HFHSC contributions to HFHSC Ohio amounted to \$1,500 (2013) and \$1,750 (2012).

6 Significant Estimates

With the exception of ReStore inventory donations described in Note 1, the value of in-kind donations are recorded at an estimated fair market value, as determined by management, at the time of receipt.

7 Conditional Grants

During 2009, HFHSC received a conditional grant from Summit County for the Neighborhood Stabilization Program. A total amount of \$372,000 was contingent upon the new construction of five homes and the rehabilitation of three homes. Revenue is recognized as the conditions are met. Approximately \$13,000 (2013) and \$225,000 (2012) is included in contributions and grants on the Statement of Activities related to this grant. As of March 31, 2013, HFHSC has received the full amount of this grant.