DAYTON, OHIO,
HABITAT FOR HUMANITY, INC.

FINANCIAL REPORT

JUNE 30, 2013 AND 2012

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

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FLAGEL HUBER FLAGEL
Certified Public Accountants | Business Advisors

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees of
Dayton, Ohio, Habitat for Humanity, Inc.

We have audited the accompanying financial statements of Dayton, Ohio, Habitat for Humanity, Inc. ("Habitat") (a not-for-profit corporation), which comprise the statements of financial position as of June 30, 2013 and 2012, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audits 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.

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Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat as of June 30, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matter

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of functional expenses are presented for purposes of additional analysis and are 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.

Flagel Huber Flagel

Certified Public Accountants

Dayton, Ohio

December 12, 2013

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

	JUNE 30, 2013	JUNE 30, 2012
ASSETS		
Cash and cash equivalents	$ 309,852	$ 286,314
Cash and cash equivalents - board designated for capital campaign	206,167	0
Escrow holdings - taxes and insurance	62,945	94,653
Investments	50,324	37,384
Investments - permanently restricted	67,570	67,570
Pledges receivable	23,731	28,861
Pledges receivable - board designated for capital campaign net of discount of $2,239 at June 30, 2013	153,548	0
Grants receivable	1,600	27,859
Other receivables, net	0	25,707
Prepaid expenses	3,578	4,016
Construction in progress	150,865	546,383
Non-interest bearing mortgage loans	5,335,268	5,236,035
Discount on non-interest bearing mortgage loans	(2,802,039)	(2,720,549)
Land held for development	708,335	340,236
Property, plant and equipment, net	832,678	154,006
TOTAL ASSETS	$ 5,104,422	$ 4,128,475
LIABILITIES AND NET ASSETS		
LIABILITIES		
Line of credit	$ 90,166	$ 90,166
Accounts payable and accrued expenses	282,974	216,052
Escrow holdings - taxes and insurance	62,945	94,653
Agency liabilities	97,988	88,216
Notes payable	332,000	11,816
TOTAL LIABILITIES	866,073	500,903
NET ASSETS		
Unrestricted	3,811,064	3,560,002
Board designated - capital campaign	359,715	0
TOTAL UNRESTRICTED NET ASSETS	4,170,779	3,560,002
Permanently restricted	67,570	67,570
TOTAL NET ASSETS	4,238,349	3,627,572
TOTAL LIABILITIES AND NET ASSETS	$ 5,104,422	$ 4,128,475

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITES

FOR THE YEAR ENDED JUNE 30, 2013

	UNRESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE, GAINS AND OTHER SUPPORT:			
Cash contributions	$ 429,277	$ 0	$ 429,277
Cash contributions - capital campaign	566,979	0	566,979
In-kind contributions	277,993	0	277,993
In-kind contributions - capital campaign	89,350	0	89,350
Grants	590,717	0	590,717
Sales of houses and land	557,000	0	557,000
Mortgage loan discount amortization	175,159	0	175,159
ReStore sales	305,068	0	305,068
Other revenue	32,997	0	32,997
Net investment return	10,277	0	10,277
	3,034,817	0	3,034,817
Net assets released from program restrictions	0	0	0
Total revenue, gains and other support	3,034,817	0	3,034,817
EXPENSES:			
Program services	2,088,791	0	2,088,791
Supporting services:			
Fund raising	104,756	0	104,756
Management and general	230,493	0	230,493
	2,424,040	0	2,424,040
CHANGE IN NET ASSETS	610,777	0	610,777
NET ASSETS - beginning of year	3,560,002	67,570	3,627,572
NET ASSETS - end of year	$ 4,170,779	$ 67,570	$ 4,238,349

The accompanying notes are an integral part of these statements.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITES

FOR THE YEAR ENDED JUNE 30, 2012

	UNRESTRICTED	PERMANENTLY RESTRICTED	TOTAL
REVENUE, GAINS AND OTHER SUPPORT:			
Cash contributions	$ 352,021	$ 0	$ 352,021
In-kind contributions	494,484	0	494,484
Grants	768,422	0	768,422
Sales of houses and land	573,594	0	573,594
Mortgage loan discount amortization	211,506	0	211,506
ReStore sales	324,580	0	324,580
Other revenue	10,006	0	10,006
Net investment return	(6,579)	0	(6,579)
	2,728,034	0	2,728,034
Net assets released from program restrictions	0	0	0
Total revenue, gains and other support	2,728,034	0	2,728,034
EXPENSES:			
Program services	2,035,470	0	2,035,470
Supporting services:			
Fund raising	97,075	0	97,075
Management and general	201,755	0	201,755
	2,334,300	0	2,334,300
CHANGE IN NET ASSETS	393,734	0	393,734
NET ASSETS - beginning of year	3,166,268	67,570	3,233,838
NET ASSETS - end of year	$ 3,560,002	$ 67,570	$ 3,627,572

The accompanying notes are an integral part of these statements.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

	FOR THE YEARS ENDED JUNE 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	$ 610,777	$ 393,734
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Transfers to homeowners	(351,620)	(255,548)
Depreciation	19,951	24,253
Mortgage loan discount amortization	(175,159)	(211,506)
Donations of property and equipment	(89,350)	0
Net investment (gain) loss	(12,940)	961
Effect of changes in assets and liabilities:		
Escrow holdings - taxes and insurance	31,708	(30,662)
Pledges receivable	5,130	(265)
Pledges receivable - board designated for capital campaign	(153,548)	0
Grants receivable	26,259	199,333
Other receivables	25,707	(19,581)
Prepaid expenses	438	(1,060)
Construction in progress	395,518	(331,341)
Land for development	(368,099)	(206,223)
Accounts payable and accrued expenses	66,922	80,576
Escrow holdings - taxes and insurance	(31,708)	30,662
Agency liabilities	9,772	12,381
TOTAL ADJUSTMENTS	(601,019)	(708,020)
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	9,758	(314,286)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgage payments and credits	509,036	377,077
Purchase of equipment	(177,273)	(755)
NET CASH PROVIDED BY INVESTING ACTIVITIES	331,763	376,322

The accompanying notes are an integral part of these statements.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS (CONTINUED)

	FOR THE YEARS ENDED JUNE 30, 2013	FOR THE YEARS ENDED JUNE 30, 2012
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	(111,816)	(38,233)
CHANGE IN CASH AND CASH EQUIVALENTS	229,705	23,803
CASH AND CASH EQUIVALENTS:		
Beginning of year	286,314	262,511
End of year	$ 516,019	$ 286,314
SUPPLEMENTARY DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	$ 8,645	$ 3,817
Non-cash investing and financing activities:		
Issuance of non-interest bearing mortgage loans	$ 635,000	$ 564,574
Discount on non-interest bearing mortgage loans	283,380	309,026
Transfers to homeowners subject to non-interest bearing mortgage loans	351,620	255,548
Purchase of property and equipment with debt obligation	432,000	0
Donations of property and equipment	89,350	0

The accompanying notes are an integral part of these statements.

1. ORGANIZATION AND PURPOSE

Dayton, Ohio, Habitat for Humanity, Inc. ("Habitat") (a not-for-profit corporation) was incorporated on March 31, 1983. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations. Habitat is supported primarily through donor contributions and grants.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of the significant accounting policies followed in the preparation of the financial statements.

<u>Basis of Accounting</u>
The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for not-for-profit organizations.

<u>Financial Statement Presentation</u>
Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted, temporarily restricted, and permanently restricted. A description of each class as it pertains to Habitat is as follows:

Unrestricted – Represents resources that have no restriction on their use and are available to support Habitat's operations. Certain funds, resulting from Habitat's recent capital campaign, have been designated by the Board of Directors for repayment of the note payable related to the building acquisition in the current year.

Temporarily Restricted – Represents resources resulting from contributions and other inflows of assets whose use by Habitat is limited by donor-imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of Habitat pursuant to those stipulations. Habitat has no temporarily restricted net assets; therefore, this classification is omitted from the financial statements.

Permanently Restricted – Represents resources resulting from contributions or other inflows of assets whose use by Habitat is limited by donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of Habitat pursuant to those stipulations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents

Habitat considers cash and cash equivalents to be all highly liquid accounts that include interest and non-interest bearing demand deposit accounts.

Concentration of Credit Risk

Habitat maintains its cash in bank deposit accounts which, at times, may exceed federally insured limits. Habitat has not experienced any losses in these accounts. All of the non-interest bearing cash balances were fully insured at June 30, 2012 due to a temporary federal program in effect from December 31, 2010 through December 31, 2012. Under the program, there was no limit to the amount of insurance for eligible accounts. Beginning in 2013, insurance coverage reverted to $250,000 per depositor at each financial institution, and the non-interest bearing cash balances may again, at times, exceed federally insured limits. Habitat believes it is not exposed to any significant credit risk on cash.

Escrow Activity and Agency Liabilities

Habitat services the mortgages on the homes it sells. Consequently, Habitat records an asset titled escrow holdings – taxes and insurance and a liability titled escrow holdings – taxes and insurance which are amounts received for insurance and property taxes on such homes. Habitat also services mortgages partially financed through a third party lender. In servicing these homes, Habitat collects owner repayments on behalf of the third parties. Monies collected on behalf of these third parties are reflected as a liability titled agency liabilities.

Investments

All investments are reported at fair value. Investment income, including interest and dividends and realized and unrealized gains or losses, are recorded in the statements of activities as unrestricted or permanently restricted, based upon donor restrictions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Mortgages Receivable

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. The mortgages have an original maturity of twenty (20) to thirty (30) years and arise in connection with Habitat's homebuilding initiatives. Habitat considers homeowners to be delinquent if they are 30 days past due on their mortgage payment. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or Habitat may accept back the deed in lieu of foreclosure where homeowner mortgage payments are deemed seriously delinquent. Properties acquired through foreclosure or accepting a deed in lieu of foreclosure may be sold directly on the open market, or refurbished in partnership with and sold to other families in need of decent, affordable housing. Consequently, no allowance for credit losses has been established for mortgages receivable as of June 30, 2013 and 2012.

In connection with the issuance of the original non-interest bearing mortgages, in most cases, Habitat also issues a silent second mortgage. These silent second mortgages represent the difference between the original mortgage and the appraised value of the home and are due to Habitat either in part or in full, if the homeowner does not comply with the terms of the original mortgage. These silent second mortgages deter the homeowner from selling the home upon closing for an immediate profit and are typically forgiven on a prorated basis over the first 100 scheduled payments of the original mortgage. At June 30, 2013 and 2012, Habitat has not recorded any receivables related to these silent second mortgages as management has determined that no triggering events have occurred that would require they be recognized in the financial statements.

Pledges Receivable

These pledge receivables represent unconditional pledges from donors to contribute cash or other assets to Habitat. Pledges receivable are recognized when received at the net present value of their estimated future cash flows. At June 30, 2013 and 2012 all pledge balances were expected to be collected within one year. Management reviewed pledges receivable and has determined no allowance for doubtful accounts is considered necessary as of June 30, 2013 and 2012, respectively.

Pledges Receivable – Board Designated for Capital Campaign

These pledge receivables represent amounts pledged from donors as part of Habitat's recent capital campaign and have been designated by the Board of Directors for repayment of the note payable related to the building acquisition in the current year. At June 30, 2013 all board designated pledge balances were expected to be collected within one to five years. These pledges are recognized when received at the net present value of their estimated future cash flows. At June 30, 2013 Habitat recorded a discount of $2,239. Management has reviewed these receivables and has determined an allowance for doubtful accounts is not necessary.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Other Receivables

Habitat records other receivables that consist of insurance and property taxes paid by Habitat on behalf of homeowners with insufficient escrow balances. These balances totaled $20,275 and $25,707 at June 30, 2013 and 2012 respectively. Due to the suspect collectability of these balances, management has recorded an allowance for doubtful accounts of $20,275 at June 30, 2013. No allowance was recorded for the year ended June 30, 2012.

Contributions

Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a donor restriction expires, (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statements of activities as net assets released from restrictions. However, restricted contributions may be reported as unrestricted support if the restrictions are met in the same reporting period.

Transfers to Homeowners

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at various rates ranging from 6.0% to 9.0% based upon prevailing market rates for disadvantaged loans at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages.

Donated Services

Donated services are recognized as contributions 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 Habitat. A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Donated Goods

Habitat receives donated goods for resale at the ReStore and records the donated goods at zero value rather than its fair market value as is the practice prevalent with other organizations engaged in similar activities.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Habitat capitalizes all expenditures for property and equipment in excess of $1,000 that have a useful life of at least three years. Property and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Donated equipment is recorded at fair market value at the date of the donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 39 years.

Construction in Progress

Construction in progress represents the construction costs, including donated building materials or services, of homes either under construction or completed but not yet transferred to homeowners. Construction in process is valued at purchased cost or if donated, at the fair market value as of the date of donation. Costs incurred in conjunction with home construction are capitalized until the completion of each home. Following is a summary of home building activity for the years ended June 30:

	2013		2012	
	Number	Costs	Number	Costs
Homes under construction, beginning of year	7	$ 546,383	5	$ 215,042
Additional costs in process		198,254		193,475
New homes started during the year	8	669,272	11	958,542
Homes transferred during the year	(13)	(1,263,044)	(9)	(820,676)
Homes under construction, end of year	2	$ 150,865	7	$ 546,383

Impairment of Long-Lived Assets

Habitat reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended June 30, 2013 and 2012.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Use of Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

Advertising Costs

Advertising costs are expensed when incurred. Advertising expense for the years ended June 30, 2013 and 2012 totaled $6,371 and $3,871 respectively.

Income Taxes

Habitat has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International by the Internal Revenue Service.

Accounting principles generally accepted in the United States of America prescribe attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. It requires affirmative evaluation that it is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements, and additional disclosures about uncertain tax positions are required.

Habitat's evaluation as of June 30, 2013 revealed no income tax positions that, if overturned, would have a material impact on the financial statements. The 2009 through 2011 tax years remain subject to examination by the Internal Revenue Service. Habitat does not believe that any reasonable possible changes will occur within the next twelve months that will have a material impact on the financial statements.

3. PLEDGES RECEIVABLE – BOARD DESIGNATED FOR CAPITAL CAMPAIGN

These pledges receivable represent pledges due in futures years. Amounts due in more than one year have been discounted to their estimated net present value using a 3.25% discount rate. Pledges receivable are expected to be collected as follows at June 30, 2013:

Due by June 30, 2014	$ 86,895
Due by June 30, 2015	30,161
Due by June 30, 2016	19,631
Due by June 30, 2017	4,100
Due by June 30, 2018 and later	15,000
TOTAL	155,787
Less: Discounts to present value	(2,239)
	$ 153,548

4. MORTGAGE RECEIVABLES

The following tables summarize the age analysis of past due mortgage receivables:

	JUNE 30, 2013				
	Total	Current	30-60 days past due	60-90 days past due	Greater than 90 days
Consumer mortgage loans secured by real estate	$5,335,268	$3,414,572	$ 373,469	$ 266,763	$ 1,280,464

	JUNE 30, 2012				
	Total	Current	30-60 days past due	60-90 days past due	Greater than 90 days
Consumer mortgage loans secured by real estate	$5,236,035	$3,305,015	$ 557,025	$ 594,160	$ 779,835

5. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

COST:	JUNE 30, 2013	JUNE 30, 2012	Estimated Useful Life in Years
Land	$ 101,355	$ 26,605	--
Building and improvements	782,499	163,971	39
Tools	2,489	0	5 - 7
Office equipment	30,920	36,342	3 - 7
Vehicles	128,052	128,052	4 - 7
TOTAL	1,045,315	354,970	
Less accumulated depreciation	(212,637)	(200,964)	
	$ 832,678	$ 154,006	

Depreciation expense was $19,951 and $24,253 for the years ended June 30, 2013 and 2012, respectively.

6. LINE OF CREDIT

Habitat has a revolving line of credit with a local bank with a maximum borrowing limit of $175,000 to provide for normal working capital requirements. The line of credit bears interest at prime (3.25% at June 30, 2013 and 2012). The outstanding balance on this note was $90,166 as of June 30, 2013 and 2012.

7. OPERATING LEASES

Habitat was committed to a month to month lease agreement for office space located in Dayton, Ohio. This lease agreement was terminated effective April 2013 upon Habitat's purchase of a new facility. Habitat also leases certain office equipment under long-term lease agreements. These leases are classified as operating leases and expire in 2016.

Rent expense under operating lease agreements for the years ended June 30, 2013 and 2012 was $14,133 and $15,596, respectively.

Minimum future lease payments are as follows:

Fiscal Year	Amount
2014	$ 2,460
2015	2,460
2016	2,460
2017	205
	$ 7,585

8. RETIREMENT PLAN

Habitat sponsors a defined contribution plan (the Plan) covering all employees who have completed minimum age and service requirements. Habitat makes a contribution to the Plan up to 3% of the participant's compensation. Total expense for the years ended June 30, 2013 and 2012 was $4,184 and $5,887, respectively.

9. TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat annually remits a portion of its unrestricted contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2013 and 2012, Habitat contributed $9,671 and $7,000, respectively, to Habitat International. Such amounts are included in program services expense in the Statements of Activities.

10. NOTES PAYABLE

Notes payable consist of the following:

	JUNE 30, 2013	JUNE 30, 2012
Habitat for Humanity International, Inc. - payable in quarterly installments of $3,616, including interest at 3.89%, paid in full March 2013.	$ 0	$ 10,952
Habitat for Humanity International, Inc. - payable in monthly installments of $125, including interest at 0%, paid in full in September 2012.	0	300
Habitat for Humanity International, Inc. - payable in monthly installments of $96, including interest at 0%, paid in full December 2012.	0	564
PNC Bank - commercial construction loan requiring interest only payments at prime rate plus 300 basis points (3.17% at June 30, 2013) during the construction period.	332,000	0
	$ 332,000	$ 11,816

11. CONTINGENCIES

Financial awards from federal, state, and local governmental entities in the form of grants are subject to compliance audits. Such audits could result in claims against Habitat for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

12. INVESTMENTS

The cost and fair value of Habitat's investments are summarized as follows:

	JUNE 30, 2013		JUNE 30, 2012	
	Cost	Fair Value	Cost	Fair Value
Investments held at the Dayton Foundation:				
Money market funds	$ 843	$ 843	$ 843	$ 843
Common stocks	38,828	56,663	38,600	50,397
Mutual funds	39,667	60,388	39,438	53,714
	$ 79,338	$ 117,894	$ 78,881	$ 104,954

Components of investment return include the following for the years ended June 30:

	2013	2012
Unrealized gains (losses)	$ 12,483	$ (1,771)
Interest and dividend income	2,495	2,684
Investment fees	(2,038)	(1,874)
Other	(2,663)	(5,618)
	$ 10,277	$ (6,579)

13. ENDOWMENT FUNDS

Permanently restricted net assets consist of endowment fund investments created to further the mission of Habitat. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds, are classified and reported based on the existence or absence of donor-imposed restrictions.

Habitat has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Habitat classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure in a manner consistent with the standard of prudence prescribed by SPMIFA. Habitat considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Habitat, and (7) Habitat's investment policies.

Habitat has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment while seeking to maintain the purchasing power of these endowment assets over the long-term. Habitat's spending and investment policies work together to achieve this objective. The investment policy establishes an achievable return objective through diversification of asset classes. Habitat relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). Habitat targets a diversified asset allocation that places an emphasis on equity investments to achieve its long-term return objectives with prudent risk parameters.

To date, Habitat has appropriated all the earnings from the endowment to support operations.

Permanently restricted endowment net assets as of June 30, 2013 and 2012 were $67,570.

13. ENDOWMENT FUNDS (Continued)

Changes in endowment net assets for the years ended June 30 were as follows:

	2013	2012
Beginning of year	$ 67,570	$ 67,570
Investment loss	(2,206)	(4,808)
Net appreciation (depreciation)	12,483	(1,771)
Amount returned from operations	0	6,579
Amounts appropriated for expenditure	(10,277)	0
End of year	$ 67,570	$ 67,570

14. FAIR VALUE MEASUREMENTS

Habitat applies accounting principles generally accepted in the United States of America (GAAP) for fair value measurements of financial assets that are recognized or disclosed at fair value in the financial statements on a recurring basis. Fair value is defined as the price that would be received for an asset or paid to transfer a liability, in the principal or most advantageous market for the asset or liability, in an orderly transaction between market participants at the measurement date. A three-level fair value hierarchy has been established that prioritizes the inputs used to measure fair value. This hierarchy requires entities to maximize the use of observable inputs and minimize the use of unobservable inputs. The three levels of inputs used to measure fair value are as follows:

- Level 1 - Observable inputs such as quoted prices in active markets;
- Level 2 - Inputs, other than quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

The level in the fair value hierarchy within which a fair value measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

14. FAIR VALUE MEASUREMENTS (Continued)

The carrying value of Habitat's short term financial instruments, including cash and cash equivalents, pledges receivable, and accounts payable approximate fair value due to the relatively short period of time between their origination and expected realization.

A description of the valuation methodologies used for assets measured at fair value, as well as the general description of such instruments pursuant to the valuation hierarchy, is set forth below. There have been no changes in the methodologies used at June 30, 2013 and 2012.

The fair values of investments are categorized as level one and are a combination of money market funds, common stocks, and mutual funds. The fair values are determined by quoted prices in active exchange markets, such as the New York Stock Exchange.

The discounted non-interest bearing mortgage loans receivable is categorized as level two. The discount rate used to calculate the discount for all mortgages closed during a fiscal year is published annually by Habitat for Humanity International. It is based on an average of the low-income housing credit annual discount rate, Revenue Ruling 2009-16 section 42(b)(1), for buildings placed in service during the period.

The following tables summarize assets measured at fair value on a recurring basis, segregated by the level of the valuation inputs within the fair value hierarchy utilized to measure fair value.

Description	JUNE 30, 2013	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Investments:				
Money market funds	$ 843	$ 843		
Common stocks	56,663	56,663		
Mutual funds	60,388	60,388		
	$ 117,894	$ 117,894	$ 0	$ 0
Discounted mortgages receivable:				
Mortgage receivable	$ 5,335,268		$ 5,335,268	
Discount	(2,802,039)		(2,802,039)	
Balance	$ 2,533,229	$ 0	$ 2,533,229	$ 0

14. FAIR VALUE MEASUREMENTS (Continued)

Description	JUNE 30, 2012	Fair Value Measurements Using: Level 1	Level 2	Level 3
Assets:				
Investments:				
Money market funds	$ 843	$ 843		
Common stocks	50,397	50,397		
Mutual funds	53,714	53,714		
	$ 104,954	$ 104,954	$ 0	$ 0
Discounted mortgages receivable:				
Mortgage receivable	$ 5,236,035		$ 5,236,035	
Discount	(2,720,549)		(2,720,549)	
Balance	$ 2,515,486	$ 0	$ 2,515,486	$ 0

15. SUBSEQUENT EVENTS

The Board of Directors for Dayton, Ohio Habitat for Humanity and Greene County Habitat for Humanity have entered into an agreement for the Dayton affiliate to acquire the assets of the Greene County affiliate effective December 31, 2013.

In November 2013, Habitat's construction loan with PNC Bank converted to a mortgage maturing in November 2018. The interest rate on the mortgage is prime plus 300 basis points (currently 3.17%). Likewise, subsequent to year end, Habitat made principal curtailment payments of approximately $134,000 resulting in a mortgage balance of approximately $197,000. The mortgage requires a balloon payment upon maturity. Aggregate maturities of the mortgage for each of the next five years ending June 30 are approximately as follows: 2014 - $6,500; 2015 - $9,300; 2016 - $8,900; 2017 - $8,400; and 2018 - $8,000 and thereafter $155,900.

Management evaluated the activity of Habitat through December 12, 2013 (the date the financial statements were available to be issued) and concluded that no additional subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2013

		Supporting Services		
	Programs *	Fund Raising	Management and General	TOTAL
Salaries and benefits	$ 537,016	$ 74,774	$ 67,977	$ 679,767
Building materials and supplies	919,098	0	0	919,098
Building services	79,644	0	0	79,644
Depreciation	15,761	0	4,190	19,951
Mortgage discounts	283,380	0	0	283,380
Rent	14,133	0	0	14,133
Vehicles	17,512	0	0	17,512
Utilities	62,843	3,697	7,393	73,933
Advertising	637	3,823	1,911	6,371
Special projects	416	0	0	416
Printing and postage	2,607	3,478	2,608	8,693
ReStore expenses	7,935	0	0	7,935
Professional fees	37,421	9,355	70,164	116,940
Insurance	17,392	1,304	3,044	21,740
Interest expense	0	0	8,645	8,645
Travel and entertainment	2,530	2,530	20,237	25,297
Office supplies	30,842	5,140	15,421	51,403
Education	8,378	655	4,058	13,091
Property maintenance	37,518	0	9,973	47,491
Other	13,728	0	14,872	28,600
	$ 2,088,791	$ 104,756	$ 230,493	$ 2,424,040
Portion of above expenditures supported by in-kind contributions	$ 264,337	$ 0	$ 13,656	$ 277,993

* Programs include Family Services, Volunteer Services, Affordable Housing through Construction and ReStore

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2012

		Supporting Services		
	Programs *	Fund Raising	Management and General	TOTAL
Salaries and benefits	$ 502,023	$ 69,902	$ 63,547	$ 635,472
Building materials and supplies	751,388	0	0	751,388
Building services	225,285	0	0	225,285
Depreciation	19,160	0	5,093	24,253
Mortgage discounts	309,026	0	0	309,026
Rent	15,596	0	0	15,596
Vehicles	19,378	0	0	19,378
Utilities	44,412	2,612	5,225	52,249
Advertising	387	2,323	1,161	3,871
Special projects	2,173	0	0	2,173
Printing and postage	2,714	3,620	2,715	9,049
ReStore expenses	8,216	0	0	8,216
Professional fees	34,632	8,658	64,935	108,225
Insurance	15,749	1,181	2,756	19,686
Interest expense	0	0	3,817	3,817
Travel and entertainment	1,884	1,884	15,070	18,838
Office supplies	39,138	6,523	19,569	65,230
Education	4,763	372	2,307	7,442
Property maintenance	33,371	0	8,871	42,242
Other	6,175	0	6,689	12,864
	$ 2,035,470	$ 97,075	$ 201,755	$ 2,334,300
Portion of above expenditures supported by in-kind contributions	$ 483,720	$ 0	$ 10,764	$ 494,484

* Programs include Family Services, Volunteer Services, Affordable Housing through Construction and ReStore