

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

FINANCIAL REPORT

JUNE 30, 2012 AND 2011

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

TABLE OF CONTENTS

JUNE 30, 2012 AND 2011

INDEPENDENT AUDITOR'S REPORT	Page 1
FINANCIAL STATEMENTS	
Statements of Financial Position	2
Statements of Activities	3 - 4
Statements of Cash Flows	5 - 6
Notes to Financial Statements	7 - 19
SUPPLEMENTARY INFORMATION	
Supplementary Schedules of Functional Expenses	20 - 21



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 statements of financial position of Dayton, Ohio, Habitat for Humanity, Inc. ("Habitat") (a not-for-profit corporation) as of June 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of Habitat's management. 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 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 audits provide 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 Habitat as of June 30, 2012 and 2011, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary schedules of functional expenses on pages 20-21 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 audits 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 & Co.

Certified Public Accountants

Dayton, Ohio

November 15, 2012

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
	<u>2012</u>	<u>2011</u>
ASSETS		
Cash and cash equivalents	\$ 286,314	\$ 262,511
Escrow holdings	94,653	63,991
Investments	37,384	38,345
Investments - permanently restricted	67,570	67,570
Pledges receivable	28,861	28,596
Grants receivable	27,859	227,192
Other receivables	25,707	6,126
Prepaid expenses	4,016	2,956
Construction in progress	546,383	215,042
Non-interest bearing mortgage loans	5,236,035	5,048,538
Discount on non-interest bearing mortgage loans	(2,720,549)	(2,623,029)
Land for development	340,236	134,013
Property and equipment, net	<u>154,006</u>	<u>177,504</u>
TOTAL ASSETS	<u>\$ 4,128,475</u>	<u>\$ 3,649,355</u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Lines of credit	\$ 90,166	\$ 110,166
Accounts payable and accrued expenses	216,052	135,476
Escrows - taxes and insurance	94,653	63,991
Escrows - other	88,216	75,835
Notes payable	<u>11,816</u>	<u>30,049</u>
TOTAL LIABILITIES	<u>500,903</u>	<u>415,517</u>
NET ASSETS		
Unrestricted	3,560,002	3,166,268
Permanently restricted	<u>67,570</u>	<u>67,570</u>
TOTAL NET ASSETS	<u>3,627,572</u>	<u>3,233,838</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 4,128,475</u>	<u>\$ 3,649,355</u>

The accompanying notes are an integral part of these statements.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2012

	<u>UNRESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
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)
	<u>2,728,034</u>	<u>0</u>	<u>2,728,034</u>
Net assets released from program restrictions	<u>0</u>	<u>0</u>	<u>0</u>
Total revenue, gains and other support	2,728,034	0	2,728,034
EXPENSES AND LOSSES:			
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
	<u>2,334,300</u>	<u>0</u>	<u>2,334,300</u>
CHANGE IN NET ASSETS	393,734	0	393,734
NET ASSETS - beginning of year	<u>3,166,268</u>	<u>67,570</u>	<u>3,233,838</u>
NET ASSETS - end of year	<u>\$ 3,560,002</u>	<u>\$ 67,570</u>	<u>\$ 3,627,572</u>

The accompanying notes are an integral part of these statements.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED JUNE 30, 2011

	<u>UNRESTRICTED</u>	<u>PERMANENTLY RESTRICTED</u>	<u>TOTAL</u>
REVENUE, GAINS AND OTHER SUPPORT:			
Cash contributions	\$ 564,762	\$ 0	\$ 564,762
In-kind contributions	202,873	0	202,873
Grants	453,135	0	453,135
Sales of houses and land	614,788	0	614,788
Mortgage loan discount amortization	161,407	0	161,407
ReStore sales	257,436	0	257,436
Other revenue	650	0	650
Net investment return	23,976	0	23,976
	<u>2,279,027</u>	<u>0</u>	<u>2,279,027</u>
 Net assets released from program restrictions	 <u>0</u>	 <u>0</u>	 <u>0</u>
 Total revenue, gains and other support	 2,279,027	 0	 2,279,027
EXPENSES AND LOSSES:			
Program services	1,990,395	0	1,990,395
Supporting services:			
Fund raising	86,110	0	86,110
Management and general	180,151	0	180,151
	<u>2,256,656</u>	<u>0</u>	<u>2,256,656</u>
 CHANGE IN NET ASSETS	 22,371	 0	 22,371
 NET ASSETS - beginning of year	 <u>3,143,897</u>	 <u>67,570</u>	 <u>3,211,467</u>
 NET ASSETS - end of year	 <u>\$ 3,166,268</u>	 <u>\$ 67,570</u>	 <u>\$ 3,233,838</u>

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,	
	2012	2011
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 393,734	\$ 22,371
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Transfers to homeowners	(255,548)	(288,602)
Depreciation	24,253	27,021
Mortgage loan discount amortization	(211,506)	(161,407)
Net investment loss (gain)	961	(19,720)
Effect of changes in assets and liabilities:		
Escrow holdings	(30,662)	(7,012)
Pledges receivable	(265)	(4,321)
Grants receivable	199,333	(177,827)
Other receivables	(19,581)	1,440
Prepaid expenses	(1,060)	(1,960)
Construction in progress	(331,341)	45,215
Land for development	(206,223)	82,789
Accounts payable and accrued expenses	80,576	49,846
Escrows - taxes and insurance	30,662	7,012
Escrows - other	12,381	15,125
TOTAL ADJUSTMENTS	<u>(708,020)</u>	<u>(432,401)</u>
NET CASH USED IN OPERATING ACTIVITIES	<u>(314,286)</u>	<u>(410,030)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Mortgage payments received	377,077	365,052
Purchase of equipment	<u>(755)</u>	<u>(9,183)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>376,322</u>	<u>355,869</u>

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,	
	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable and lines of credit	(38,233)	(18,103)
Proceeds from lines of credit	<u>0</u>	<u>20,000</u>
NET CASH (USED IN) PROVIDED BY FINANCING ACTIVITIES	<u>(38,233)</u>	<u>1,897</u>
CHANGE IN CASH	23,803	(52,264)
CASH AND CASH EQUIVALENTS:		
Beginning of year	<u>262,511</u>	<u>314,775</u>
End of year	<u>\$ 286,314</u>	<u>\$ 262,511</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the year for:		
Interest	\$ 3,817	\$ 3,817
Non-cash investing and financing activities:		
Issuance of non-interest bearing mortgage loans	\$ 564,574	\$ 560,608
Discount on non-interest bearing mortgage loans	309,026	297,643
Transfers to homeowners subject to non-interest bearing mortgage loans	255,548	288,602

The accompanying notes are an integral part of these statements.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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

Basis of Accounting

The financial statements are prepared on the accrual basis of accounting.

Financial Statement Presentation

Habitat 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. There are no temporarily restricted net assets. In addition, Habitat is required to present a statement of cash flows.

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.

Escrow Activity

Habitat services the mortgages on the homes it sells. Consequently, Habitat records an asset titled escrow holdings and a liability titled escrows – 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 escrows - other.

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 temporarily restricted, based upon donor restrictions.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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, at which time they are transferred to non-accrual status. 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, 2012 and 2011.

Pledges Receivable

Pledges receivable 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, 2012 and 2011 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, 2012 and 2011, respectively.

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.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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.

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:

	2012		2011	
	Number	Costs	Number	Costs
Homes under construction, beginning of year	5	\$ 215,042	7	\$ 260,257
Additional costs in process		193,475		266,879
New homes started during the year	11	958,542	8	467,309
Homes transferred during the year	(9)	(820,676)	(10)	(779,403)
Homes under construction, end of year	<u>7</u>	<u>\$ 546,383</u>	<u>5</u>	<u>\$ 215,042</u>

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

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.

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, 2012 and 2011.

Concentration of Credit Risk

Habitat maintains its cash balances in various financial institution accounts, which at times, may exceed federally insured limits. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. In addition, Habitat'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.

Allocation of Expenses

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

Advertising Costs

Advertising costs are expenses when incurred. Advertising expense for the years ended June 30, 2012 and 2011 totaled \$3,871 and \$4,924 respectively.

Reclassifications

Certain amounts for the prior year have been reclassified to conform with the current year's presentation. These reclassifications did not result in any changes to net assets.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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, 2012 revealed no income tax positions that, if overturned, would have a material impact on the financial statements. The 2008 through 2010 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. MORTGAGE RECEIVABLES

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

		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		<u>\$5,236,035</u>	<u>\$3,305,015</u>	<u>\$ 557,025</u>	<u>\$ 594,160</u>	<u>\$ 779,835</u>
		JUNE 30, 2011				
		Total	Current	30-60 days past due	60-90 days past due	Greater than 90 days
Consumer mortgage loans secured by real estate		<u>\$5,048,538</u>	<u>\$3,340,386</u>	<u>\$ 569,384</u>	<u>\$ 341,630</u>	<u>\$ 797,138</u>

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

4. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

COST:	JUNE 30,		Estimated Useful Life in Years
	2012	2011	
Land	\$ 26,605	\$ 26,605	--
Building and improvements	163,971	163,971	39
Tools	0	6,648	5 - 7
Office equipment	36,342	35,587	3 - 7
Vehicles	128,052	128,052	4 - 7
TOTAL	<u>354,970</u>	<u>360,863</u>	
Less accumulated depreciation	<u>(200,964)</u>	<u>(183,359)</u>	
	<u>\$ 154,006</u>	<u>\$ 177,504</u>	

Depreciation expense was \$24,253 and \$27,021 for the years ended June 30, 2012 and 2011, respectively.

5. LINES OF CREDIT

Habitat has a revolving line of credit with a bank with a maximum borrowing limit of \$125,000 to provide for normal working capital requirements. The line of credit bears interest at prime (3.25% at June 30, 2012 and 2011). The outstanding balance on this note was \$90,166 as of June 30, 2012 and 2011.

Habitat had a revolving line of credit with a credit union with a maximum borrowing limit of \$50,000. The line of credit had an imputed interest rate of 3.25%. The line of credit expired in April 2012 and was not renewed. At June 30, 2011 the outstanding balance on this note was \$20,000.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

6. OPERATING LEASES

Effective January 2010, Habitat entered into a lease for office space located in Dayton, Ohio. The lease was for an initial term of two years, and contained a one year renewal term. The lease expired in January 2012 and Habitat has agreed to month to month lease terms since that date. 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, 2012 and 2011 was \$15,596 and \$14,455, respectively.

Minimum future lease payments are as follows:

<u>Fiscal Year</u>	<u>Amount</u>
2013	\$ 2,460
2014	2,460
2015	2,460
2016	2,460
	<u>\$ 9,840</u>

7. RETIREMENT PLAN

Habitat sponsors a defined contribution plan (the Plan) covering all employees who have completed minimum age and service requirements. The Organization makes a contribution to the Plan up to 3% of the participant's compensation. Total expense for the years ended June 30, 2012 and 2011 was \$5,887 and \$8,193, respectively.

8. 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, 2012 and 2011, Habitat contributed \$7,000 and \$6,436, respectively, to Habitat International. Such amounts are included in program services expense in the Statements of Activities.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

9. NOTES PAYABLE

Notes payable consist of the following:

	JUNE 30,	
	<u>2012</u>	<u>2011</u>
Habitat for Humanity International, Inc. - payable in quarterly installments of \$3,616, including interest at 3.89%, due March 2013, mortgages pledged as collateral.	\$ 10,952	\$ 24,505
Habitat for Humanity International, Inc. - payable in monthly installments of \$125, including interest at 0%, paid in full in September 2012.	300	1,980
Habitat for Humanity International, Inc. - payable in monthly installments of \$96, including interest at 0%, due January 2014.	564	3,564
	<u>\$ 11,816</u>	<u>\$ 30,049</u>

The aggregate maturities of the notes payable for the year ended June 30, 2013 is \$11,816.

10. 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.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

11. INVESTMENTS

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

	JUNE 30, 2012		JUNE 30, 2011	
	Cost	Fair Value	Cost	Fair Value
Investments held at the Dayton Foundation:				
Money market funds	\$ 843	\$ 843	\$ 2,049	\$ 2,049
Closed end funds	0	0	22,432	28,286
Common stocks	38,600	50,397	15,186	22,342
Mutual funds	39,438	53,714	38,404	53,238
	<u>\$ 78,881</u>	<u>\$ 104,954</u>	<u>\$ 78,071</u>	<u>\$ 105,915</u>

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

	2012	2011
Unrealized gains (losses)	\$ (1,771)	\$ 19,268
Interest and dividend income	2,684	2,297
Investment fees	(1,874)	(1,845)
Other	(5,618)	4,256
	<u>\$ (6,579)</u>	<u>\$ 23,976</u>

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

12. 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) the 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, 2012 and 2011 were \$67,570 respectively.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

12. ENDOWMENT FUNDS (Continued)

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

	<u>2012</u>	<u>2011</u>
Beginning of year	\$ 67,570	\$ 67,570
Investment income (loss)	(4,808)	4,708
Net appreciation (depreciation)	(1,771)	19,268
Amount returned from operations	6,579	0
Amounts appropriated for expenditure	0	(23,976)
End of year	<u>\$ 67,570</u>	<u>\$ 67,570</u>

13. 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 the 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.

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

13. FAIR VALUE MEASUREMENTS (Continued)

The carrying value of Habitat's short term financial instruments, including cash and cash equivalents, cash reserves, 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, 2012 and 2011.

The fair values of investments are categorized as level one and are a combination of money market funds, exchange traded and closed end 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, 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		
	<u>\$ 104,954</u>	<u>\$ 104,954</u>	<u>\$ -</u>	<u>\$ -</u>
Discounted mortgages receivable:				
Mortgage receivable	\$ 5,236,035		\$ 5,236,035	
Discount	(2,720,549)		(2,720,549)	
Discounted balance	<u>\$ 2,515,486</u>	<u>\$ -</u>	<u>\$ 2,515,486</u>	<u>\$ -</u>

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2012 AND 2011

13. FAIR VALUE MEASUREMENTS (Continued)

Description	JUNE 30, 2011	Fair Value Measurements Using:		
		Level 1	Level 2	Level 3
Assets:				
Investments:				
Money market funds	\$ 2,049	\$ 2,049		
Closed end funds	28,286	28,286		
Common stocks	22,342	22,342		
Mutual funds	53,238	53,238		
	<u>\$ 105,915</u>	<u>\$ 105,915</u>	<u>\$ -</u>	<u>\$ -</u>
Discounted mortgages receivable:				
Mortgage receivable	\$ 5,048,538		\$ 5,048,538	
Discount	(2,623,029)		(2,623,029)	
Discounted balance	<u>\$ 2,425,509</u>	<u>\$ -</u>	<u>\$ 2,425,509</u>	<u>\$ -</u>

14. SUBSEQUENT EVENTS

Subsequent to year end, Habitat entered into a contract to purchase a building for \$355,000. Closing on the contract is dependent upon Habitat successfully raising funds and securing financing in accordance with the terms of the contract. Habitat has begun a capital campaign and has initiated discussions with local financial institutions to raise these funds. As of the date of these financial statements, Habitat had not closed on the purchase of the building.

Management evaluated the activity of Habitat through November 15, 2012 (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, 2012

	Program Services		Supporting Services		TOTAL
	Programs *	Discounts on Mortgage Originations	Fund Raising	Management and General	
Salaries and benefits	\$ 502,023	\$ 0	\$ 69,902	\$ 63,547	\$ 635,472
Building materials and supplies	751,388	0	0	0	751,388
Building services	225,285	0	0	0	225,285
Depreciation	19,160	0	0	5,093	24,253
Mortgage discounts	0	309,026	0	0	309,026
Rent	15,596	0	0	0	15,596
Vehicles	19,378	0	0	0	19,378
Utilities	44,412	0	2,612	5,225	52,249
Advertising	387	0	2,323	1,161	3,871
Special projects	2,173	0	0	0	2,173
Printing and postage	2,714	0	3,620	2,715	9,049
ReStore expenses	8,216	0	0	0	8,216
Professional fees	34,632	0	8,658	64,935	108,225
Insurance	15,749	0	1,181	2,756	19,686
Interest expense	0	0	0	3,817	3,817
Travel and entertainment	1,884	0	1,884	15,070	18,838
Office supplies	39,138	0	6,523	19,569	65,230
Education	4,763	0	372	2,307	7,442
Property maintenance	33,371	0	0	8,871	42,242
Other	6,175	0	0	6,689	12,864
	<u>\$ 1,726,444</u>	<u>\$ 309,026</u>	<u>\$ 97,075</u>	<u>\$ 201,755</u>	<u>\$ 2,334,300</u>
Portion of above expenditures supported by in-kind contributions	<u>\$ 483,720</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 10,764</u>	<u>\$ 494,484</u>

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

DAYTON, OHIO, HABITAT FOR HUMANITY, INC.

SUPPLEMENTARY SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2011

	Program Services		Supporting Services		TOTAL
	Programs *	Discounts on Mortgage Originations	Fund Raising	Management and General	
Salaries and benefits	\$ 467,751	\$ 0	\$ 65,130	\$ 59,209	\$ 592,090
Building materials and supplies	499,289	0	0	0	499,289
Building services	516,410	0	0	0	516,410
Depreciation	21,347	0	0	5,674	27,021
Mortgage discounts	0	297,643	0	0	297,643
Rent	14,455	0	0	0	14,455
Vehicles	8,949	0	895	8,054	17,898
Utilities	24,654	0	2,466	22,190	49,310
Advertising	493	0	2,954	1,477	4,924
Special projects	2,251	0	0	0	2,251
Printing and postage	1,511	0	2,015	1,511	5,037
ReStore expenses	6,104	0	0	0	6,104
Professional fees	20,344	0	2,712	10,849	33,905
Insurance	13,605	0	1,020	2,381	17,006
Interest expense	0	0	0	3,817	3,817
Travel and entertainment	9,042	0	2,763	13,311	25,116
Office supplies	36,466	0	6,078	18,234	60,778
Education	982	0	77	476	1,535
Property maintenance	24,736	0	0	6,576	31,312
Other	24,363	0	0	26,392	50,755
	<u>\$ 1,692,752</u>	<u>\$ 297,643</u>	<u>\$ 86,110</u>	<u>\$ 180,151</u>	<u>\$ 2,256,656</u>
Portion of above expenditures supported by in-kind contributions	<u>\$ 201,448</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 1,425</u>	<u>\$ 202,873</u>

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