

**HABITAT FOR HUMANITY OF SUMNER COUNTY,  
TENNESSEE, INC.  
AUDITED FINANCIAL STATEMENTS  
JUNE 30, 2013**

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CERTIFIED PUBLIC ACCOUNTANTS

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## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Habitat for Humanity of Sumner County, Tennessee, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Sumner County, Tennessee Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

### Management's Responsibilities 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 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 do not 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 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 Sumner County, Tennessee Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

McMurray & Associates, CPAs

*McMurray & Associates*

Hendersonville, Tennessee  
November 8, 2013

**HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.**  
**STATEMENT OF FINANCIAL POSITION**  
**JUNE 30, 2013**

**ASSETS**

Cash and cash equivalents, including escrow accounts of \$25,945	\$ 176,750
Accounts receivable	5,820
Prepaid expenses	2,838
Inventory	36,951
Construction in progress	99,233
Property, plant and equipment, net	788,046
Land held for development	95,020
Mortgage receivable, net of discounts of \$448,896	400,577
THDA mortgage receivable	<u>464,886</u>
 Total assets	 <u><u>\$ 2,070,121</u></u>

**LIABILITIES AND NET ASSETS**

Accounts payable	\$ 49,223
Accrued liabilities	6,896
Escrow accounts	25,945
Notes payable	500,000
THDA notes payable	<u>464,878</u>
 Total liabilities	 <u>1,046,942</u>
 Net assets	
Unrestricted	<u>1,023,180</u>
 Total net assets	 <u>1,023,180</u>
 Total liabilities and net assets	 <u><u>\$ 2,070,121</u></u>

See independent auditor's report and notes to the financial statements

**HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.**  
**STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JUNE 30, 2013**

	Unrestricted Total
Support and revenue:	
Sales of homes	\$ 140,000
Sales of merchandise	276,764
Gifts In Kind	219,203
Grants	77,886
Mortgage loan discount amortization	31,224
Cash contributions	41,609
Gain (loss) on sale of assets	33,568
Other income	<u>23,236</u>
Total support and revenue	<u>843,490</u>
Expenses	
Program services	
Home construction	246,519
Restore operations	407,933
Discount on Mortgage Obligations	35,883
Total program services	<u>690,335</u>
Supporting services	
Management and general	53,265
Fundraising services	6,769
Total supporting services	<u>60,034</u>
Total expenses	<u>750,369</u>
Increase (decrease) in net assets	93,122
Net assets at beginning of year	<u>930,058</u>
Net assets at end of year	<u><u>\$ 1,023,180</u></u>

See independent auditor's report and notes to the financial statements



**HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.**  
**STATEMENT OF CASH FLOWS**  
**FOR THE YEAR ENDED JUNE 30, 2013**

<u>Cash Flows From Operating Activities</u>	
Increase in net assets	\$ 93,122
Adjustments to reconcile increase in net assets to net cash provided by operating activities	
Change in assets and liabilities:	
Depreciation expense	11,641
Gain on sale of fixed assets	(33,568)
Increase in accounts receivable	(1,704)
Increase in prepaid expenses	(2,838)
Increase in inventory	(23,107)
Increase in mortgages receivable	(9,118)
Increase in THDA mortgages receivable	(42,778)
Increase in construction in progress	(98,660)
Decrease in land held for development	17,582
Increase in accrued liabilities	42,319
Increase in escrow accounts	3,296
Total adjustments	<u>(136,935)</u>
Net cash used in operating activities	(43,813)
<u>Cash Flows from Investing Activities</u>	
Proceeds from sale of fixed assets	150,000
Purchase of fixed assets	<u>(686,481)</u>
Net cash used in investing activities	(536,481)
<u>Cash Flows from Financing Activities</u>	
Proceeds from note payable	<u>500,000</u>
Net cash provided by financing activities	500,000
Net decrease in cash and cash equivalents	<u>(80,294)</u>
Cash and cash equivalents, June 30, 2012	<u>257,044</u>
Cash and cash equivalents, June 30, 2013	<u><u>\$ 176,750</u></u>

See independent auditor's report and notes to the financial statements



HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

A. Nature of Activities

Habitat for Humanity of Sumner County, Tennessee, Inc. (Habitat) is a nonprofit corporation governed by a local Board of Directors. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian nonprofit 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 sales of merchandise through ReStore and grants received from Federal Home Loan Bank.

B. Basis of Accounting

The financial statements have been prepared using the accrual basis of accounting in accordance with generally accepted accounting principles in the United States of America.

C. Basis of Presentation

Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed stipulations. Accordingly, net assets of Habitat and changes therein are classified and reported as follows:

Unrestricted net assets – Net assets that are not subject to donor-imposed stipulations.

Temporarily restricted net assets – Net assets subject to donor-imposed stipulations that may or will be met, either by actions of Habitat and/or the passage of time. Restrictions that are fulfilled in the same accounting period in which the funds are received are reported in the statement of activities as unrestricted. Habitat has no temporarily restricted net assets at June 30, 2013.

Permanently restricted net assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by Habitat. Habitat has no permanently restricted net assets at June 30, 2013.

All contributions are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions of cash or other assets that must be used to acquire property and equipment are reported as increases in temporarily restricted net assets until the assets are acquired and placed in service as instructed by the donor. Amounts received that are designated for future periods or restricted by the donor for specific purpose are reported as temporarily restricted or permanently restricted support that increases those net asset classes.

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HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.  
NOTES TO FINANCIAL STATEMENTS  
JUNE 30, 2013

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

D. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual results could differ from those estimates.

E. Cash and Cash Equivalents

Cash and cash equivalents include all monies in banks and highly liquid investments with maturity dates of less than three months. The carrying value of cash and cash equivalents approximates fair value because of the short maturities of those financial instruments.

F. Accounts Receivable

Accounts receivable are based on the management's evaluation of outstanding receivables at year end. Allowance for doubtful accounts, if any, is provided based on the review of outstanding receivables, historical experience, and economic conditions. Uncollectible accounts are expensed in the period such amounts are determined.

G. Revenue Recognition

Contributions are recognized as revenue when received.

Contributed land and equipment are recorded at fair value at the date of donation.

ReStore sales are recognized as revenue at the time merchandise is transferred to the customer. Historically, sales returns have not been significant.

In-kind contributions (primarily construction materials and land held for development) are recorded based on their estimated value on the date of receipt. An estimated \$219,203 of donated construction materials (\$200,937 donated inventory cost of sales) and \$0 land held for development were recognized during 2013. No amounts have been reflected in the financial statements for donated labor by unskilled volunteers 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 Habitat's program services.

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 7.5% to 9% based upon prevailing market rates at the inception of the mortgages. Discounts are amortized using the straight line method over the lives of the mortgages.

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**HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

A summary of home building activity for 2013 is as follows:

	Number	Costs
New homes under construction, June 30, 2012	0	\$573
Additional costs incurred on beginning inventory		-
New homes started in 2013	4	221,632
New homes closed in 2013	(2)	(122,972)
New homes under construction, June 30, 2013	2	\$99,233

H. Grant Revenue

Grant funds are earned and reported as revenue when Habitat has incurred expenses in compliance with the specific restrictions of the grant agreement.

Grant funds that are restricted for use in home construction are reflected as unrestricted revenue since these funds are generally received and spend during the same year.

I. Property, Plant and Equipment

Property, plant and equipment are recorded at cost or, if donated, at the estimated fair market value at the date of donation. Depreciation is computed using the straight-line method over the useful lives of the assets which range from five to thirty-one and a half years.

The Organization's capitalization policy requires individual assets to be capitalized if the cost or fair market value exceeds \$1,000. Repair and maintenance costs are expensed as incurred.

J. Program Services

Program services include construction, ReStore operations and the discounts on mortgage originations. The cost of home building is charged to program services upon transfer to the homeowner.

K. Advertising Costs

Advertising costs are expensed as incurred. Advertising expense totaled \$4,555 for the year ended June 30, 2013.

L. Income Taxes

Habitat is exempt from income taxes under section 501(c)(3) of the Internal Revenue Code and is not a private foundation. Therefore, no provision for income taxes has been made.

The Organization's Forms 990, Return of Organization Exempt from Income Tax, for the years 2013, 2012 and 2011 are subject to examination by the IRS, generally for the three years after they were filed.

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**HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 2 – LAND HELD FOR DEVELOPMENT**

Land held for development consists of land and improvements to be utilized as lots for future Habitat homeowners. Costs incurred to improve land are capitalized when incurred. The total allocated cost of each lot is charged to construction-in-progress upon commencement of building activities. Land held for development consists of the following:

	June 30, 2013
West Eastland	\$50,000
Blakemore	12,560
Union Park	14,960
Hamilton Estates	7,477
N. Council	5,212
Randolph Circle	4,311
Deposit on 315 Airport Rd.	<u>500</u>
<b>Total land held for development</b>	<b><u>\$95,020</u></b>

**NOTE 3 – PROPERTY, PLANT AND EQUIPMENT**

Property, plant and equipment consist of the following:

	June 30, 2013
Land	\$90,776
Building	684,341
Equipment	21,643
<b>Total property and equipment</b>	<b>\$796,760</b>
<b>Less accumulated depreciation</b>	<b>(8,714)</b>
<b>Property, plant and equipment, net</b>	<b><u>\$788,046</u></b>

Depreciation expense for the year ended June 30, 2013 was \$11,641 and was computed using the straight line method.

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**HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 4 – MORTGAGE RECEIVABLES**

*Habitat Mortgages*

In accordance with Habitat guidelines, the recipient of each Habitat sponsored home signs a first and second mortgage repayment agreement in exchange for the receipt of the home. The second mortgage is executed to protect against the sale of the home by the recipient prior to the satisfaction of the primary mortgage or to prevent predatory lenders from paying off the first mortgage and saddling the homeowners with an onerous new mortgage. The expectation of collection or enforcement of the second mortgage is remote and is therefore not recorded as an asset on the Organization's books. Although the second mortgage is recorded with the respective county, these mortgages are not recorded on the books to be compliant with the accounting concept of conservatism, that is, not to record a contingent receivable.

*THDA Mortgages*

The Organization has obtained funds from the Tennessee Housing Development Agency's (THDA) New Start Mortgage Loan Program. The New Start Loan Program provides non-interest bearing loans designed to promote the construction of new homes for low and very low income Tennesseans. As of June 30, 2013, eight homeowners have been placed in homes in association with this program.

The Organization services these loans for \$12/month per loan as a servicing fee. The remainder of the funding is repayable to THDA, regardless of whether the mortgagee is making regular payments on their mortgage obligations. At June 30, 2013, all THDA mortgagees were current on their obligations to the Organization.

As a pass through entity, the Organization is not required to compute an effective interest rate on THDA loans and as such the mortgage receivable and obligation to THDA are shown on the balance sheet at their respective gross amounts. These mortgages vary in length from 20 – 30 years. Future principle maturities in each of the next five years are \$24,089, with the remaining \$344,441 due thereafter.

**NOTE 5 – ACCRUED LIABILITIES**

Accrued liabilities consist of the following as of:

	June 30, 2013
Payroll and taxes	\$ 5,896
Pending home sale earnest money	<u>1,000</u>
	\$ 6,896

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**HABITAT FOR HUMANITY OF SUMNER COUNTY, TENNESSEE, INC.**  
**NOTES TO FINANCIAL STATEMENTS**  
**JUNE 30, 2013**

**NOTE 6 – NOTES PAYABLE**

Notes payable to bank of \$500,000 secured by newly constructed building bearing interest at 4.65%, payable in 59 monthly installments each \$3,204 and one balloon payment of \$417,847, maturing July 2018.

**NOTE 7 – TRANSACTIONS WITH HABITAT FOR HUMANITY 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 year ended June 30, 2013, Habitat contributed \$1,200 to Habitat International.

**NOTE 8 – SUBSEQUENT EVENTS**

The Organization has evaluated events and transactions for subsequent events that would impact the financial statements for the year ended June 30, 2013 through November 8, 2013, the date the financial statements were available to be issued. Habitat is not aware of any significant events that occurred subsequent to the statement of financial position date but prior to the filing of this report that would have a material impact on the financial statements.

See independent auditor's report