



**Consolidated Financial Statements,  
Independent Auditors' Report,  
and  
Accompanying Information  
December 31, 2011 and 2010**

**EKS&H**  
**EHRHARDT • KEEFE  
STEINER • HOTTMAN PC**  
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

**HABITAT FOR HUMANITY OF METRO DENVER, INC.**

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## INDEPENDENT AUDITORS' REPORT

To the Board of Directors  
Habitat for Humanity of Metro Denver, Inc.  
Denver, Colorado

We have audited the accompanying consolidated statements of financial position of Habitat for Humanity of Metro Denver, Inc. ("Habitat") (a Colorado non-profit corporation) as of December 31, 2011 and 2010 and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended. These consolidated financial statements are the responsibility of Habitat's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of Habitat's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements and assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Metro Denver, Inc. as of December 31, 2011 and 2010 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.



Ehrhardt Keefe Steiner & Hottman PC

April 23, 2012  
Denver, Colorado

**HABITAT FOR HUMANITY OF METRO DENVER, INC.**

**Consolidated Statements of Financial Position**

	December 31,	
	2011	2010
<b>Assets</b>		
Assets		
Cash and cash equivalents	\$ 1,473,294	\$ 2,525,503
Investments held by The Denver Foundation (Note 2)	2,420,861	2,458,255
Investment in HFHI-SA Leverage IX, LLC (Note 11)	3,682,757	-
Escrow deposits held in trust	105,399	89,503
Grants receivable	1,000	130,712
Construction in progress (Note 4)	8,451,312	8,516,689
Other assets	374,794	116,354
Mortgage notes receivable, net (Note 5)	10,370,789	7,481,479
Property and equipment, net (Note 6)	3,597,827	3,683,225
Deferred loan costs	279,580	-
Total assets	<b>\$ 30,757,613</b>	<b>\$ 25,001,720</b>
<b>Liabilities and Net Assets</b>		
Liabilities		
Accounts payable	\$ 193,059	\$ 151,722
Other accrued expenses	167,246	138,315
Homeowner deposits	22,650	30,107
Deferred rent	50,522	-
Escrow deposits held in trust	105,399	89,503
Mortgage note payable (Note 8)	1,535,908	1,585,958
Note payable (Note 9)	948,000	948,000
Notes payable HFHI (Note 10)	250,789	226,343
Note payable HFHI-SA NMTC VI, LLC (Note 11)	4,858,200	-
Forgivable notes payable (Note 12)	2,375,829	1,680,800
Total liabilities	10,507,602	4,850,748
Net assets		
Unrestricted		
Board-designated for land and infrastructure	1,500,000	1,500,000
Undesignated	17,326,256	17,755,352
Total unrestricted	18,826,256	19,255,352
Temporarily restricted	1,423,755	895,620
Total net assets	20,250,011	20,150,972
Total liabilities and net assets	<b>\$ 30,757,613</b>	<b>\$ 25,001,720</b>

See notes to consolidated financial statements.

**HABITAT FOR HUMANITY OF METRO DENVER, INC.**

**Consolidated Statements of Activities**

	For the Years Ended					
	December 31, 2011			December 31, 2010		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support						
Contributions and grants	\$ 3,559,590	\$ 1,249,740	\$ 4,809,330	\$ 4,181,631	\$ 781,870	\$ 4,963,501
Donated goods and services	1,233,544	-	1,233,544	2,301,195	-	2,301,195
Home sales	3,124,977	-	3,124,977	2,814,456	-	2,814,456
Mortgage interest income	433,589	-	433,589	397,388	-	397,388
Discount earned on the sale of receivables	156,360	-	156,360	524,346	-	524,346
Sales from ReStores, net of cost of purchased inventory of \$70,226 (2011) and \$91,116 (2010)	2,268,581	-	2,268,581	2,166,218	-	2,166,218
Other income	115,382	-	115,382	103,098	-	103,098
Net assets released from restrictions due to satisfaction of expenditure requirements	<u>721,605</u>	<u>(721,605)</u>	<u>-</u>	<u>311,890</u>	<u>(311,890)</u>	<u>-</u>
Total revenues, gains, and support	<u>11,613,628</u>	<u>528,135</u>	<u>12,141,763</u>	<u>12,800,222</u>	<u>469,980</u>	<u>13,270,202</u>
Expenses						
Program services						
Home construction	8,577,841	-	8,577,841	7,351,383	-	7,351,383
Family services	452,379	-	452,379	447,483	-	447,483
Total program services	<u>9,030,220</u>	<u>-</u>	<u>9,030,220</u>	<u>7,798,866</u>	<u>-</u>	<u>7,798,866</u>
Supporting services						
Management and general	593,189	-	593,189	649,716	-	649,716
Fundraising activities	866,119	-	866,119	746,594	-	746,594
Outlet stores	<u>1,553,401</u>	<u>-</u>	<u>1,553,401</u>	<u>1,032,609</u>	<u>-</u>	<u>1,032,609</u>
Total supporting services	<u>3,012,709</u>	<u>-</u>	<u>3,012,709</u>	<u>2,428,919</u>	<u>-</u>	<u>2,428,919</u>
Total expenses	<u>12,042,929</u>	<u>-</u>	<u>12,042,929</u>	<u>10,227,785</u>	<u>-</u>	<u>10,227,785</u>
Change in net assets before investment income	(429,301)	528,135	98,834	2,572,437	469,980	3,042,417
Investment income	205	-	205	291,949	-	291,949
Change in net assets	(429,096)	528,135	99,039	2,864,386	469,980	3,334,366
Net assets at beginning of year	<u>19,255,352</u>	<u>895,620</u>	<u>20,150,972</u>	<u>16,390,966</u>	<u>425,640</u>	<u>16,816,606</u>
Net assets at end of year	<u>\$ 18,826,256</u>	<u>\$ 1,423,755</u>	<u>\$ 20,250,011</u>	<u>\$ 19,255,352</u>	<u>\$ 895,620</u>	<u>\$ 20,150,972</u>

See notes to consolidated financial statements.

**HABITAT FOR HUMANITY OF METRO DENVER, INC.**

**Consolidated Statements of Functional Expenses  
For the Year Ended December 31, 2011**

	Program Services			Supporting Services			Total Functional Expenses
	Home Construction	Family Services	Total Program Services	Management and General	Fundraising Activities	ReStores	
Expenses							
Cost of homes sold	\$ 6,059,751	\$ -	\$ 6,059,751	\$ -	\$ -	\$ -	\$ 6,059,751
Salaries and wages	914,545	260,098	1,174,643	243,339	455,389	721,551	2,594,922
Volunteer labor on homes	631,940	-	631,940	-	-	-	631,940
Occupancy	22,391	15,486	37,877	23,203	15,357	317,018	393,455
Payroll taxes and benefits	152,516	48,958	201,474	47,865	81,431	142,957	473,727
Habitat for Humanity							
International tithes	162,000	-	162,000	-	-	-	162,000
Depreciation and amortization	69,421	34,836	104,257	49,077	33,927	13,102	200,363
Professional fees	45,210	6,140	51,350	42,852	2,172	7,907	104,281
Bank and investment fees	330	-	330	40,248	6,749	47,387	94,714
Insurance	58,993	12,116	71,109	37,927	17,923	38,239	165,198
Other construction costs	170,466	24,004	194,470	-	-	-	194,470
Marketing and communications	1,496	3,076	4,572	1,368	183,122	87,371	276,433
Office supplies	20,700	11,733	32,433	27,049	14,176	39,042	112,700
Vehicle expense	47,047	-	47,047	701	-	42,833	90,581
Interest expense	34,653	16,300	50,953	22,762	15,730	-	89,445
Volunteer expense	96,201	6,346	102,547	941	7,620	7,007	118,115
Telephone	15,829	2,122	17,951	2,748	3,016	19,469	43,184
Printing and postage	4,775	5,566	10,341	4,529	5,237	11,483	31,590
Miscellaneous	343	-	343	14,210	525	3,287	18,365
Administrative fees	7,597	80	7,677	23,471	12,407	642	44,197
Equipment purchase and repair expense	45,648	-	45,648	-	-	36,130	81,778
Staff development	12,026	3,931	15,957	6,525	6,944	3,572	32,998
Travel and transportation	3,963	1,587	5,550	4,374	4,394	14,404	28,722
<b>Total expenses</b>	<b>\$ 8,577,841</b>	<b>\$ 452,379</b>	<b>\$ 9,030,220</b>	<b>\$ 593,189</b>	<b>\$ 866,119</b>	<b>\$ 1,553,401</b>	<b>\$ 12,042,929</b>

See notes to consolidated financial statements.

**HABITAT FOR HUMANITY OF METRO DENVER, INC.**

**Consolidated Statements of Functional Expenses  
For the Year Ended December 31, 2010**

	Program Services			Supporting Services			Total Supporting Services	Total Functional Expenses
	Home Construction	Family Services	Total Program Services	Management and General	Fundraising Activities	ReStores		
Expenses								
Cost of homes sold	\$ 5,189,169	\$ -	\$ 5,189,169	\$ -	\$ -	\$ -	\$ -	\$ 5,189,169
Salaries and wages	766,078	232,246	998,324	230,164	401,039	502,681	1,133,884	2,132,208
Volunteer labor on homes	617,405	-	617,405	-	-	-	-	617,405
Occupancy	32,420	26,857	59,277	41,916	26,127	189,449	257,492	316,769
Payroll taxes and benefits	166,653	52,489	219,142	14,995	87,886	105,041	207,922	427,064
Habitat for Humanity								
International tithe	144,000	-	144,000	-	-	-	-	144,000
Depreciation and amortization	36,635	18,855	55,490	94,650	18,225	25,135	138,010	193,500
Loss on disposal	-	-	-	1,918	-	-	1,918	1,918
Professional fees	51,897	8,207	60,104	77,178	3,913	18,653	99,744	159,848
Bank and investment fees	-	-	-	43,063	218	44,491	87,772	87,772
Insurance	21,776	11,587	33,363	45,125	11,473	19,982	76,580	109,943
Other construction costs	124,914	61,912	186,826	-	-	-	-	186,826
Marketing and communications	1,181	1,046	2,227	671	142,901	42,484	186,056	188,283
Office supplies	11,488	9,510	20,998	33,428	8,484	17,288	59,200	80,198
Vehicle expense	29,876	-	29,876	-	-	19,275	19,275	49,151
Interest expense	10,518	8,551	19,069	31,122	8,213	-	39,335	58,404
Volunteer expense	95,511	919	96,430	448	3,950	4,854	9,252	105,682
Telephone	12,689	2,360	15,049	3,788	2,852	13,765	20,405	35,454
Printing and postage	1,867	4,879	6,746	7,041	6,465	2,238	15,744	22,490
Miscellaneous	41	36	77	5,502	20	1,458	6,980	7,057
Administrative fees	8,407	5,701	14,108	9,400	18,932	350	28,682	42,790
Equipment purchase and repair expense	19,282	-	19,282	-	-	20,180	20,180	39,462
Staff development	6,337	1,643	7,980	4,823	4,715	1,248	10,786	18,766
Travel and transportation	<u>3,239</u>	<u>685</u>	<u>3,924</u>	<u>4,484</u>	<u>1,181</u>	<u>4,037</u>	<u>9,702</u>	<u>13,626</u>
Total expenses	<u>\$ 7,351,383</u>	<u>\$ 447,483</u>	<u>\$ 7,798,866</u>	<u>\$ 649,716</u>	<u>\$ 746,594</u>	<u>\$ 1,032,609</u>	<u>\$ 2,428,919</u>	<u>\$ 10,227,785</u>

See notes to consolidated financial statements.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Consolidated Statements of Cash Flows

	For the Years Ended	
	December 31,	
	2011	2010
Cash flows from operating activities		
Change in net assets	\$ 99,039	\$ 3,334,366
Adjustments to reconcile change in net assets to net cash used in operating activities		
Mortgages made to homeowners	(3,124,977)	(2,814,456)
Discount earned on sale of mortgage receivables	(156,360)	(524,346)
Depreciation and amortization expense	200,363	193,500
Amortization of deferred loan costs	9,563	-
Gain on disposal of assets	(1,000)	(900)
Deferred rent	50,522	-
Non-cash contribution of property and equipment	-	(6,000)
Non-cash contribution of land for construction in progress	(65,100)	(75,000)
Non-cash construction in progress acquired through federal grants	-	(973,340)
Amortization of mortgage loan discounts	(433,589)	(397,388)
Net realized and unrealized gain on investments	(205)	(291,949)
Changes in assets and liabilities		
Grants receivable	129,712	(74,385)
Construction in progress	825,506	285,498
Other assets	(258,440)	(89)
Accounts payable	41,337	(43,838)
Other accrued expenses	28,931	-
Homeowner deposits	(7,457)	(1,208)
	(2,761,194)	(4,723,901)
Net cash used in operating activities	(2,662,155)	(1,389,535)
Cash flows from investing activities		
Mortgage payments received	825,616	864,533
Proceeds from sales of mortgages receivable	-	1,334,024
Deferred loan costs	(289,143)	-
Purchase of investment in HFHI-SA Leverage IX, LLC	(3,682,757)	-
Sale of investments	37,599	33,408
Payments for purchases of equipment	(114,965)	(29,481)
Proceeds from sale of equipment	1,000	1,018
Net cash (used in) provided by investing activities	(3,222,650)	2,203,502
Cash flows from financing activities		
Repayments of mortgage note payable	(50,050)	(667,748)
Proceeds from notes payable	-	510,141
Proceeds from (repayments of) notes payable HFHI	24,446	(47,791)
Proceeds from note payable HFHI-SA NMTC VI, LLC	4,858,200	-
Net cash provided by (used in) financing activities	4,832,596	(205,398)
Net (decrease) increase in cash and cash equivalents	(1,052,209)	608,569
Cash and cash equivalents at beginning of year	2,525,503	1,916,934
Cash and cash equivalents at end of year	\$ 1,473,294	\$ 2,525,503

(Continued on the following page)

See notes to consolidated financial statements.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Consolidated Statements of Cash Flows

(Continued from the previous page)

Supplemental disclosure of cash flow information:

Interest paid was \$70,967 and \$58,404 for the years ended December 31, 2011 and 2010, respectively.

Supplemental disclosure of non-cash activity:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Issuance of non-interest bearing mortgage loans	\$ 5,369,548	\$ 4,909,900
Discount on non-interest bearing mortgage loans	<u>(2,244,571)</u>	<u>(2,095,444)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 3,124,977</u>	<u>\$ 2,814,456</u>

During 2011, Habitat purchased land, included in construction in progress, for \$695,029 through a note payable (Note 12).

During 2010, Habitat purchased a building for \$1,186,297 through a mortgage note payable. Habitat also financed the purchase of land, included in construction in progress, for \$2,628,800 through notes payable.

See notes to consolidated financial statements.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### Note 1 - Organization and Summary of Significant Accounting Policies

#### Organization

Habitat for Humanity of Metro Denver, Inc. ("Habitat") is a non-profit corporation formed on April 20, 1979 to raise funds to build or rehabilitate affordable housing for low-income individuals who presently live in inadequate housing or cannot purchase housing through conventional sources. To qualify for housing, an individual must go through an application process. As part of the qualifying process, generally applicants must contribute up to 500 hours of time ("sweat equity"), meet specific income guidelines, and have a demonstrable need for affordable and quality housing. Financing for individuals is provided by Habitat at no interest with minimum monthly payments. Additionally, Habitat provides family support and educational workshops to qualified homeowners as part of its family services program.

Habitat operates three Home Improvement Outlets (the "ReStores") to provide the community with a source of low-cost materials for home improvement, to reduce the volume of materials going to landfills, and to generate funds for Habitat. Many Habitat homeowners volunteer at the ReStores to earn sweat equity hours and work experience.

Habitat is an affiliate of Habitat for Humanity International ("Habitat International" or "HFHI").

Habitat Community Housing Development, Inc. ("HCHD") is a separately incorporated non-profit corporation, formed for the purpose of obtaining certain federal funds set aside for community housing development organizations that will be used by Habitat for the construction of affordable homes for low-income families. Habitat is the sole member of HCHD.

#### Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Habitat and HCHD, collectively referred to as "Habitat." All significant interorganization balances and transactions have been eliminated.

#### Basis of Presentation

The accompanying consolidated financial statements of Habitat have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities. Habitat reports 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.

Unrestricted amounts are those currently available at the discretion of the Board of Directors ("Board") for use in Habitat's operations. Unrestricted amounts also include monies designated by the Board for a reserve fund for future land purchases and infrastructure development.

Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Basis of Presentation (continued)

Permanently restricted amounts are assets that must be maintained permanently by Habitat as required by the donor, but Habitat is permitted to use or expend part or all of any income derived from those assets. Habitat does not currently maintain any permanently restricted net assets.

#### Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, Habitat considers all unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

#### Investments

Investments held by The Denver Foundation (the "Foundation") are stated at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the consolidated statements of activities.

Investment in HFHI-SA Leverage IX, LLC is recorded at cost (Note 11).

#### Concentrations of Credit Risk

Financial instruments, which potentially subject Habitat to concentrations of credit risk, consist of cash accounts that may, during the year, exceed the federally insured limit set by the Federal Deposit Insurance Corporation ("FDIC"); investments held by the Foundation; and mortgage notes receivable. Non-interest bearing accounts are fully insured by the FDIC through December 31, 2012. Interest bearing accounts are guaranteed by the FDIC up to \$250,000. At December 31, 2011, Habitat had deposits in excess of federally insured limits of approximately \$131,000. Habitat reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

Habitat finances the construction and ownership of homes to low-income individuals in the Denver Metro area. Habitat has established procedures to limit the risk of default by limiting the sales prices of the homes and not charging interest, thereby designing the monthly mortgage payments of the owners to be manageable. Habitat homes are appraised for value prior to sale; the original sales prices may be set below the appraisal value. However, the values of homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of management.

Credit risk with respect to contributions receivable is limited due to the number and credit worthiness of the corporations, foundations, churches, and individuals that comprise the contributor base.

#### Escrow Deposits Held in Trust

Habitat currently services the mortgages on the homes it sells and retains. Certain mortgages are sold to a third party who services the loans they hold. Escrow deposits held in trust include amounts received for insurance, property taxes, and other fees on such loans that Habitat services.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period received. Unconditional contributions receivable are recorded at net realizable value if expected to be collected within one year and at the present value of expected future cash flows if expected to be collected in more than one year. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met.

Habitat uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible contributions receivable at December 31, 2011 or 2010.

#### Property and Equipment

Property and equipment is recorded at cost or, if donated, at fair value at the date of donation. Habitat capitalizes all property and equipment with a cost or donated value in excess of \$5,000 and with an estimated useful life of three years or more. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 30 years.

#### Deferred Loan Costs

During 2011, Habitat capitalized the costs associated with obtaining the New Market Tax Credit ("NMTC") loan. These deferred loan costs are being amortized over the life of the related note payable using a method approximating the effective interest method. Amortization of deferred loan costs are included in interest expense in the accompanying consolidated statement of functional expenses. Interest expense for the year ended December 31, 2011 was \$9,563.

#### Deferred Rent

Habitat recognizes rent expense on a straight-line basis over the term of the lease. Deferred rent reflects the accumulated difference between actual rent payments and expense recognized.

#### Donated Services and Goods

Donated services are recognized as contributions at estimated fair value on the date of receipt if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat.

In 2011, Habitat estimated the cost of volunteer labor to be approximately \$21,300 for a single-family home, \$16,800 for a duplex unit, and \$18,600 for a townhome. In 2010, Habitat estimated the cost of volunteer labor to be approximately \$21,700 for a single-family home, \$19,500 for a duplex unit, and \$18,700 for a townhome. These volunteer costs are capitalized and are recognized as contribution revenue and cost of homes sold in the consolidated statements of activities when the home is sold.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### Note 1 - Organization and Summary of Significant Accounting Policies (continued)

#### Donated Services and Goods (continued)

Approximately \$12,000 was recorded for donated materials and electrical services on each Habitat home during 2011 and 2010.

Donated property utilized in the operations of Habitat is recorded at the estimated fair value at the date of the donation.

Consistent with the Habitat International *Affiliate Operations Manual*, goods donated to the ReStores are reflected as revenue at the time of sale when there is an objective, measurable basis for determining fair value. This accounting reflects the nature of many donations received by the ReStores wherein significant uncertainties exist about the realizability of the values; thus, fair value is not determinable within reasonable limits until the time of sale.

#### Contributions

Habitat records contributions 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 unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a 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 consolidated statements of activities as net assets released from restrictions.

#### Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated based upon estimated usage, square footage, or periodic time and expense studies, as is appropriate to the particular cost being allocated.

#### Income Taxes

Habitat and HCHD are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and both organizations qualify for the charitable contribution deduction. However, income from activities not directly related to their tax-exempt purposes is subject to taxation as unrelated business income. There were no unrelated business income taxes in 2011 and 2010.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 1 - Organization and Summary of Significant Accounting Policies (continued)**

#### Income Taxes (continued)

Habitat applies a more-likely-than-not measurement methodology to reflect the consolidated financial statement impact of uncertain tax positions taken or expected to be taken in a tax return. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2011 or 2010.

If incurred, interest and penalties associated with tax positions are recorded in the period assessed as other operating expense. No interest or penalties have been assessed as of December 31, 2011 or 2010.

Tax years that remain subject to examination include 2008 through the current year.

#### Use of Estimates

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

#### Subsequent Events

Habitat has evaluated all subsequent events through April 23, 2012, which is the date the consolidated financial statements were available to be issued. No subsequent events require disclosure based upon this evaluation.

### **Note 2 - Investments Held by The Denver Foundation**

Invested funds at the Foundation are pooled with other funds in a diversified portfolio maintained by the Foundation in order to realize the benefits of common administration, but Habitat retains all legal and equitable ownership rights.

The investment return on Habitat's pro-rata share of the pooled investments held by the Foundation is summarized as follows:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Realized gains	\$ 16,618	\$ 8,228
Ordinary income	47,313	25,569
Unrealized (losses) gains	<u>(63,726)</u>	<u>258,152</u>
Total unrestricted investment income	<u>\$ 205</u>	<u>\$ 291,949</u>

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 3 - Fair Value Measurement**

Habitat values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the following fair value hierarchy prioritizes inputs used to measure fair value into three broad levels, which are described below:

- Level 1: Quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.
- Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.
- Level 3: Unobservable inputs are used when little or no market data is available.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Levels 1, 2, or 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

The carrying amounts of financial assets required to be measured at fair value on a recurring basis include investments held by the Foundation, the fair value of which is based upon information determined and reported by the Foundation, and corroborated with the Foundation's audited consolidated financial statements by management. Habitat's pro-rata share of the pooled investments does not have an active market and is therefore classified under Level 3 in the fair value hierarchy.

Below is a reconciliation of the beginning and ending balance of assets held by the Foundation measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 2,458,255	\$ 2,199,714
Total realized and unrealized gains	205	291,949
Distributions for fees paid to the Foundation	<u>(37,599)</u>	<u>(33,408)</u>
Ending balance	<u>\$ 2,420,861</u>	<u>\$ 2,458,255</u>

### **Note 4 - Construction in Progress**

Construction in progress consists of undeveloped land and infrastructure costs, as well as partially completed single-family and multi-family dwellings. At December 31, 2011 and 2010, 44 and 47 units were under development, beyond the land purchase phase, respectively.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### Note 4 - Construction in Progress (continued)

Habitat's construction in progress is comprised of the following:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Completed homes ready for sale	\$ 2,408,890	\$ 2,288,763
Construction in progress	1,498,212	2,607,334
Land under development	968,361	1,267,966
Land acquired for development	<u>3,575,849</u>	<u>2,352,626</u>
	<u>\$ 8,451,312</u>	<u>\$ 8,516,689</u>

### Note 5 - Mortgage Notes Receivable

Mortgage notes receivable consist of non-interest bearing notes received from homebuyers in connection with the sale of homes constructed by Habitat. The notes are discounted to their present values using the market rate of interest at the closing date; the discount rate varies from 3.6% to 8.8%. The discount is amortized over the life of the mortgages using the interest method.

Mortgage notes receivable are as follows:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Face value of outstanding mortgages receivable	\$ 17,310,049	\$ 12,808,120
Less discount	<u>(6,939,260)</u>	<u>(5,326,641)</u>
	<u>\$ 10,370,789</u>	<u>\$ 7,481,479</u>

Approximately \$843,000 will be due in 2012 on the above notes.

All mortgage notes receivable are collateralized by the respective homes sold. A committee of the Board meets together with management on a regular basis to review delinquent loans and to consider if any foreclosure proceedings should be initiated. Receivable balances are considered to be delinquent based on contractual terms. The need for an allowance is based on past collection experience and on analysis of current mortgage receivable collectibility. Management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan outstanding, and, therefore, no allowance for uncollectible mortgages is recorded.

During 2011, Habitat transferred its interest in certain mortgages receivable to the Colorado Housing and Finance Authority ("CHFA"), in replacement of non-performing mortgages. The transaction was recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the transfer during 2011 of \$156,360 arising from the substitution of mortgages. Non-performing mortgages were retained by Habitat, and the unamortized discount on these mortgages was restored and netted with mortgage interest income in the accompanying consolidated statements of activities.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 5 - Mortgage Notes Receivable (continued)**

During 2010, Habitat transferred its interest in certain mortgages receivable to the CHFA, receiving \$1,334,024 related to the transfer. The transaction was recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the sale during 2010 of \$524,346 arising from the conversion of unamortized discount on mortgage notes receivable to cash.

The sales agreement with CHFA requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within sixty days, Habitat is required to substitute one or more other mortgage loans, which have an aggregate principal balance at least equal to but not more than 125% of the outstanding balance of the mortgage loan being replaced. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of each underlying mortgaged asset exceeds the value of the associated loan. At December 31, 2011, the outstanding principal balance of CHFA held loans that are guaranteed by Habitat was \$10,234,158.

### **Note 6 - Property and Equipment**

Habitat's property and equipment is comprised of the following:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Buildings	\$ 3,903,981	\$ 3,903,981
Vehicles	198,396	158,986
Furniture and fixtures	107,310	79,350
Volunteer housing	93,895	93,895
Leasehold improvements	74,436	26,841
Office equipment	31,350	31,350
Construction equipment	15,895	15,895
Warehouse equipment	<u>12,470</u>	<u>12,470</u>
	4,437,733	4,322,768
Less accumulated depreciation	<u>(839,906)</u>	<u>(639,543)</u>
	<u>\$ 3,597,827</u>	<u>\$ 3,683,225</u>

### **Note 7 - Line-of-Credit**

Habitat has a \$1,000,000 line-of-credit agreement with a bank, due May 20, 2013. The line-of-credit agreement requires monthly interest payments at the bank's prime rate less 1%, with a floor of 3% (the interest rate at December 31, 2011 was 3%). Amounts outstanding are collateralized by certain mortgage notes receivable. At December 31, 2011 and 2010, there were no amounts outstanding under this agreement.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### Note 8 - Mortgage Note Payable

Mortgage note payable consists of the following:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Mortgage note due in equal monthly payments of principal and interest of \$10,510 with remaining principal due in a balloon payment on June 30, 2020. The note is payable over ten years, at a fixed rate of 4.8%, with payments amortized over a 20-year basis. The note is secured by a first deed of trust on the Eliot Street and Rio Grande Boulevard real properties, as well as all rents on such property.	<u>\$ 1,535,908</u>	<u>\$ 1,585,958</u>

Habitat was not in compliance with the debt service coverage ratio as required by the note agreement as of December 31, 2011. Subsequent to year-end, the bank waived the event of non-compliance.

Maturities of mortgage note payable obligations are as follows:

#### For the Year Ending December 31,

2012	\$ 52,331
2013	55,148
2014	57,892
2015	60,773
2016	63,617
Thereafter	<u>1,246,147</u>
	<u>\$ 1,535,908</u>

### Note 9 - Note Payable

Note payable consists of the following:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Note due in equal annual payments of principal only of \$237,000 beginning in 2012. The note is payable over four years and bears no interest. The note is secured by a first deed of trust on land on the property purchased and the homes built through use of the funds. Management believes the effect of imputing interest on this note payable to be insignificant.	<u>\$ 948,000</u>	<u>\$ 948,000</u>

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 9 - Notes Payable (continued)**

Maturities of note payable obligations are as follows:

#### For the Year Ending December 31,

2012	\$	237,000
2013		237,000
2014		237,000
2015		<u>237,000</u>
	\$	<u>948,000</u>

### **Note 10 - Notes Payable HFHI**

Notes payable HFHI consists of the following:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Unsecured, non-interest bearing notes payable to Habitat International, payable in monthly installments ranging from \$287 to \$1,093, maturing between July 2012 and July 2017.	\$ <u>250,789</u>	\$ <u>226,343</u>

Principal payments required under the above agreements are as follows:

#### For the Year Ending December 31,

2012	\$	76,348
2013		49,344
2014		50,449
2015		51,853
2016		16,346
Thereafter		<u>6,449</u>
	\$	<u>250,789</u>

### **Note 11 - Investment in HFHI-SA Leverage IX, LLC**

During 2011, Habitat participated in a New Market Tax Credit Program ("NMTC"). The program provides funds to eligible organizations for investments in a "qualified-low income community investment." As a participant in this program, Habitat invested in HFHI-SA Leverage IX, LLC (the "leveraged lender") with other affiliates of HFHI, and also entered into a promissory note with HFHI-SA VI, LLC, a qualified community development entity ("CDE"). Habitat has invested in a 17.78% ownership of the leveraged lender, which is recorded at its cost of \$3,687,447. The leveraged lender invested these funds in an investment fund, which in turn made an investment in the CDE.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 11 - Investment in HFHI-SA Leverage IX, LLC (continued)**

In exchange for the investment and promissory note, Habitat received a net cash inflow of approximately \$649,000, net of transaction expenses, which can be utilized to build homes, infrastructure, or acquire land. Habitat must maintain a separate accounting of the activities undertaken using the loan proceeds, build homes in qualified census tracts, and build one home per year from these funds for years two through seven. As of December 31, 2011, Habitat is in compliance with these conditions.

Habitat has a promissory note due to the CDE of \$4,858,200. This note requires interest only payments until July 2019 at 0.76%. The loan matures in July 2027 and is secured by certain depository and reserve bank accounts. The interest is paid to the CDE by Habitat and other affiliates of HFHI in proportion to their ownership of the leveraged lender, which is repaid to the investment fund. The interest is then returned to the leveraged lender, and ultimately 99.98% of the interest is returned to Habitat and other affiliates of HFHI based on their percentage ownership of the leveraged lender. In July 2019, the investment fund may exercise a put option resulting in the leveraged lender holding the debt, therefore releasing Habitat from any obligation outstanding under the promissory note.

### **Note 12 - Forgivable Notes Payable**

Forgivable notes payable consist of the following:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Notes due to the Denver Housing Authority and Globeville Workforce Housing. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue between 2018 and 2020, subject to Habitat meeting certain demographic guidelines. As of December 31, 2011, Habitat is meeting these demographic guidelines.	\$ 1,280,000	\$ 1,280,000
Notes due to the City and County of Denver. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue in 2030 and 2031, subject to Habitat using the funds for purposes specified in the agreement. As of December 31, 2011, Habitat is using the funds for those specified purposes.	<u>1,095,829</u>	<u>400,800</u>
	<u>\$ 2,375,829</u>	<u>\$ 1,680,800</u>

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### Note 13 - Net Assets

#### Unrestricted Board-Designated

The Board has designated \$1,500,000 of unrestricted net assets at December 31, 2011 and 2010 for future land and infrastructure costs expected on outstanding and planned projects.

#### Temporarily Restricted

Temporarily restricted net assets are comprised of the following:

	<u>December 31,</u>	
	<u>2011</u>	<u>2010</u>
Home sponsorships	\$ 1,193,733	\$ 895,620
Neighborhood Revitalization Initiative - capacity building	158,022	-
Capacity campaign	72,000	-
Total	<u>\$ 1,423,755</u>	<u>\$ 895,620</u>

### Note 14 - Building Lease Agreements

Habitat has entered into a non-cancelable operating lease agreement for the Wheat Ridge Home Improvement ReStore ("Wheat Ridge") building and its production warehouse. The leases require monthly payments of approximately \$12,000 and expire February 2016.

During 2011, Habitat also entered into a non-cancelable operating lease for the Littleton Home Improvement ReStore ("Littleton") building. The lease commenced August 2011 and expires July 2033, which requires escalating monthly payments ranging from approximately \$15,000 to \$19,000.

Rent expense for the year ended December 31, 2011 was \$227,290. Rent expense for the year ended December 31, 2010 was \$197,631.

Future minimum lease payments, including estimated maintenance charges, are approximately as follows:

#### For the Year Ending December 31,

2012	\$ 368,000
2013	380,000
2014	389,000
2015	389,000
2016	223,000
Thereafter	<u>1,012,000</u>
	<u>\$ 2,761,000</u>

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 15 - Transactions with Habitat International and Habitat Colorado**

Habitat voluntarily remits a portion of its contributions to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended December 31, 2011 and 2010, Habitat contributed \$162,000 and \$144,000, respectively, to Habitat International. This amount is included in program services in the consolidated statements of activities.

Habitat is a sub-recipient of certain government grants received directly by Habitat International and Habitat Colorado.

### **Note 16 - Contingencies**

#### Guarantee Agreements

Habitat has entered into various grant agreements to receive funds for construction development costs. The grant arrangements require individuals who purchase homes funded by these grant monies to sign a promissory note payable to the grantor agency for a specified amount. The promissory note must be repaid to the grantor in the event of a sale, transfer, or other disposition of the home within a specified period of time. The promissory note is forgiven if a sale, transfer, or other disposition of the home does not occur within a time specified in the grant agreement.

Habitat has guaranteed these homeowners' promissory notes to the grantor agencies. Should Habitat need to foreclose on a home, it will pay the homeowner's promissory note from the proceeds arising from the resale of the home.

#### Grant Awards

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

#### Claims and Litigation

From time to time, Habitat is the subject of claims arising from injuries sustained at construction sites or at ReStores. Habitat carries insurance, has job site safety programs, and utilizes volunteer waivers to manage the risks associated with these jobsites. Habitat also incurs other types of claims in the course of doing business and carries insurance and follows established procedures for construction, contracting, and human resources to manage these risks. No provision has been made for any liabilities that may arise from such claims since the amounts cannot be determined at this date and Habitat expects such amounts, if any, to be covered by insurance.

# HABITAT FOR HUMANITY OF METRO DENVER, INC.

## Notes to Consolidated Financial Statements

### **Note 17 - Retirement Plan**

Habitat maintained a tax-deferred annuity plan (the "Plan") qualified under IRC Section 403(b). The Plan covered all employees of Habitat. Habitat provided employees the opportunity to contribute a portion of their gross salaries to the Plan, up to the maximum amount established by the Plan. Habitat matched 100% of employees' contributions up to a maximum of 3% of the employees' annual compensation. As of June 30, 2010, Habitat terminated the Plan, and created a new tax-deferred annuity plan qualified under IRC Section 401(k). The new Plan covers all employees of Habitat and maintains the same contribution and 3% matching terms. During 2011 and 2010, Habitat contributed \$58,647 and \$57,622, respectively, in matching contributions to the Plans.