

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**

**AUDITED FINANCIAL STATEMENTS**

**June 30, 2011 and 2010**



**Junkermier • Clark**

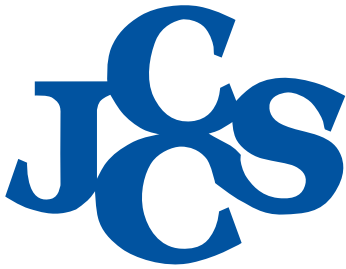
**Campanella • Stevens • P.C.**

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Certified Public Accountants and Business Advisors

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## **INDEPENDENT AUDITORS' REPORT**

**To the Board of Directors  
Habitat for Humanity of Gallatin Valley, Inc.  
Belgrade, Montana**

We have audited the accompanying statements of financial position of Habitat for Humanity of Gallatin Valley, Inc. (a nonprofit organization), as of June 30, 2011 and 2010, and the related statements of activities, cash flows, and functional expenses for the years then ended. These financial statements are the responsibility of the Organization'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 audit 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 the 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 for Humanity of Gallatin Valley, Inc., as of June 30, 2011 and 2010, and the changes in net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

***Junkermier, Clark, Campanella, Stevens, P.C.***

Bozeman, Montana  
August 29, 2011

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.  
STATEMENTS OF FINANCIAL POSITION**

	<b>June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>ASSETS</b>		
Cash	\$ 98,833	\$ 161,698
Investments	275,608	274,626
Notes receivable	3,360	-
Mortgages receivable, net of discounts of \$895,165 and \$930,937, respectively	809,232	822,741
Homes under construction	289,255	296,402
Fixed assets, net of accumulated depreciation of \$112,828 and \$90,280, respectively	553,061	575,609
AARP loan reserve	16,757	16,757
Prepaid loan interest, net of amortization of \$2,985 and \$1,990, respectively	3,301	4,296
Unemployment insurance reserve	18,434	6,669
Other asset	-	11,272
Total assets	\$ 2,067,841	\$ 2,170,070
 <b>LIABILITIES</b>		
Accounts payable	\$ 5,283	\$ 12,655
Payroll liabilities payable	3,174	9,928
Accrued compensated absences payable	10,140	9,680
Notes payable	503,578	531,033
Total liabilities	522,175	563,296
 <b>NET ASSETS</b>		
Unrestricted	1,493,666	1,554,774
Permanently restricted	52,000	52,000
Total net assets	1,545,666	1,606,774
Total liabilities and net assets	\$ 2,067,841	\$ 2,170,070

See notes to financial statements.

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.  
STATEMENTS OF ACTIVITIES**

	<b>Years ended June 30</b>	
	<b>2011</b>	<b>2010</b>
<b>CHANGES IN UNRESTRICTED NET ASSETS</b>		
Support and revenue:		
Transfers to homeowners	\$ 244,038	\$ 189,400
ReStore, less direct expenses of \$86,545 and \$82,321, respectively	63,293	54,482
Contributions and grants	79,813	172,771
In-kind donations	14,923	3,551
Interest and dividends	1,076	825
Mortgage discount amortization	99,212	82,994
Other	<u>2,662</u>	<u>9,317</u>
Total unrestricted revenue and support	<u>505,017</u>	<u>513,340</u>
Expenses:		
Construction	392,277	345,831
Family support and educational ministries	18,061	21,360
Mortgage discount expense	63,441	66,355
Fundraising	51,395	48,798
Management and general	<u>40,951</u>	<u>32,839</u>
Total expenses	<u>566,125</u>	<u>515,183</u>
<b>DECREASE IN UNRESTRICTED NET ASSETS</b>	(61,108)	(1,843)
Unrestricted net assets beginning of year	1,554,774	1,549,948
Prior period adjustment	<u>-</u>	<u>6,669</u>
<b>UNRESTRICTED NET ASSETS END OF YEAR</b>	1,493,666	1,554,774
<b>PERMANENTLY RESTRICTED NET ASSETS END OF YEAR</b>	<u>52,000</u>	<u>52,000</u>
<b>TOTAL NET ASSETS END OF YEAR</b>	<u>\$ 1,545,666</u>	<u>\$ 1,606,774</u>

See notes to financial statements.

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**STATEMENTS OF CASH FLOWS**

	Years ended June 30	
	2011	2010
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ (61,108)	\$ (1,843)
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities:		
Construction expenses (houses sold)	234,892	300,767
Houses under construction costs	(207,747)	(169,175)
New mortgages (houses sold)	(105,000)	(104,000)
In-kind contributions of construction costs	(8,726)	(2,831)
Mortgage discount amortization	(99,212)	(82,994)
Mortgage discount expense	63,441	66,355
Depreciation	22,548	23,361
Prior period adjustment	-	6,669
(Increase) decrease in:		
Prepaid expenses	995	995
Unemployment insurance reserve	(11,765)	(6,669)
Increase (decrease) in:		
Accounts payable	(7,372)	1,398
Payroll taxes payable	(6,754)	5,314
Accrued compensated absences payable	460	4,400
Escrow payable	-	(500)
	(185,348)	41,247
Net cash provided (used) by operating activities		
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Sale of investments	-	224,813
Purchase of investments	(982)	(180,371)
New notes receivable (home repairs)	(3,360)	-
Purchase of improvements on foreclosed residence	-	(11,272)
Mortgage payments received	154,280	79,492
	149,938	112,662
Net cash provided by investing activities		
<b>CASH FLOWS USED BY FINANCING ACTIVITIES</b>		
Repayment of notes payable	(27,455)	(29,225)
	(27,455)	(29,225)
<b>NET INCREASE (DECREASE) IN CASH</b>	(62,865)	124,684
Cash at beginning of year	161,698	37,014
<b>CASH AT END OF YEAR</b>	\$ 98,833	\$ 161,698

See notes to financial statements.

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
Year ended June 30, 2011

	<b>PROGRAM SERVICES</b>				<b>SUPPORT SERVICES</b>		
	<b>Construction</b>	<b>Family Support &amp; Educational Ministries</b>	<b>Discounts on Mortgage Originations</b>	<b>Total</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total</b>
Advertising	\$ -	\$ 452	\$ -	\$ 452	\$ 1,809	\$ -	\$ 2,261
Bank charges	-	-	-	-	-	90	90
Contributions - Habitat for Humanity International, Inc.	-	5,100	-	5,100	-	-	5,100
Costs of homes	334,974	-	-	334,974	-	-	334,974
Depreciation	18,038	-	-	18,038	1,127	3,383	22,548
Dues and subscriptions	-	-	-	-	-	1,658	1,658
Family selection	-	53	-	53	-	-	53
Fundraising	-	-	-	-	3,049	-	3,049
Health insurance	456	456	-	912	3,189	454	4,555
Insurance	10,054	-	-	10,054	-	2,513	12,567
Interest	3,411	-	-	3,411	-	-	3,411
Miscellaneous	1,757	586	-	2,343	1,757	1,757	5,857
Mortgage discounts	-	-	63,441	63,441	-	-	63,441
Office	1,850	1,850	-	3,700	3,700	1,849	9,249
Payroll taxes	142	142	-	284	356	71	711
Postage and freight	91	91	-	182	182	92	456
Professional fees	-	-	-	-	-	5,583	5,583
Retirement plan	104	104	-	208	167	42	417
Salaries and wages	20,156	8,062	-	28,218	32,249	20,155	80,622
Small tools	64	-	-	64	-	-	64
Taxes and licenses	15	-	-	15	-	-	15
Telephone	1,002	1,002	-	2,004	1,002	333	3,339
Training and conference fees	-	-	-	-	2,378	2,377	4,755
Travel	-	-	-	-	267	267	534
Utilities	163	163	-	326	163	327	816
<b>Total expenses</b>	<b>\$ 392,277</b>	<b>\$ 18,061</b>	<b>\$ 63,441</b>	<b>\$ 473,779</b>	<b>\$ 51,395</b>	<b>\$ 40,951</b>	<b>\$ 566,125</b>
Memorandum only:							
Percent of total expenses				83 %	10 %	7 %	100 %

See notes to financial statements.

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**STATEMENT OF FUNCTIONAL EXPENSES**  
**Year ended June 30, 2010**

	<b>PROGRAM SERVICES</b>			<b>SUPPORT SERVICES</b>			
	<b>Construction</b>	<b>Family Support &amp; Educational Ministries</b>	<b>Discounts on Mortgage Originations</b>	<b>Total</b>	<b>Fundraising</b>	<b>Management and General</b>	<b>Total</b>
Advertising	\$ -	\$ 1,499	\$ -	\$ 1,499	\$ 5,998	\$ -	\$ 7,497
Bank charges	-	-	-	-	-	227	227
Contributions - Habitat for Humanity International, Inc.	-	6,300	-	6,300	-	-	6,300
Costs of homes	286,647	-	-	286,647	-	-	286,647
Depreciation	18,689	-	-	18,689	1,168	3,504	23,361
Dues and subscriptions	-	-	-	-	-	1,330	1,330
Family selection	-	636	-	636	-	-	636
Health Insurance	363	363	-	726	2,538	361	3,625
Insurance	11,608	-	-	11,608	-	2,902	14,510
Interest	5,330	-	-	5,330	-	-	5,330
Miscellaneous	1,869	623	-	2,492	1,869	1,869	6,230
Mortgage discounts	-	-	66,355	66,355	-	-	66,355
Office	1,051	1,051	-	2,102	2,101	1,050	5,253
Payroll taxes	3,488	3,488	-	6,976	8,720	1,744	17,440
Postage and freight	84	84	-	168	169	85	422
Professional fees	-	-	-	-	-	2,930	2,930
Salaries and wages	15,229	6,092	-	21,321	24,366	15,228	60,915
Small tools	234	-	-	234	-	-	234
Taxes and licenses	15	-	-	15	-	-	15
Telephone	897	897	-	1,794	897	299	2,990
Training and conference fees	-	-	-	-	203	203	406
Travel	-	-	-	-	396	395	791
Utilities	327	327	-	654	327	656	1,637
Vehicle	-	-	-	-	46	56	102
<b>Total expenses</b>	<b>\$ <u>345,831</u></b>	<b>\$ <u>21,360</u></b>	<b>\$ <u>66,355</u></b>	<b>\$ <u>433,546</u></b>	<b>\$ <u>48,798</u></b>	<b>\$ <u>32,839</u></b>	<b>\$ <u>515,183</u></b>

Memorandum only:

Percent of total expenses	84 %	10 %	6 %	100 %
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See notes to financial statements.



**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**NOTES TO FINANCIALS STATEMENTS**  
**June 30, 2011 and 2010**

**1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES**

**Nature of Organization:**

Habitat for Humanity of Gallatin Valley, Inc. (HHGV) (a nonprofit corporation) was incorporated on May 17, 1991. HHGV 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, HHGV is primarily and directly responsible for its own operations. Since HHGV's activities are primarily in Gallatin and Park Counties in Montana, they are subject to the general economic conditions of southwest Montana.

**Basis of Accounting:**

HHGV's books are maintained on the accrual basis of accounting in accordance with generally accepted accounting principles.

The organization reports gifts of cash and other assets as restricted support if they are received with donor stipulations that limit the use of the donated assets. Accordingly, net assets of the Organization 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 the Organization and/or passage of time.

Permanently restricted net assets-Net assets subject to donor-imposed stipulations that they be maintained permanently by the Organization. Generally, the donors of these assets permit the Organization to use income earned on related investments for general or specific purposes.

Revenues are reported as increases in unrestricted net assets unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation. Grant revenues are recognized at the time reimbursable expenses are incurred. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassification between the applicable classes of net assets.

Contributions, including unconditional promises to give, are recognized as revenues in the period received. Unrestricted promises to give that are scheduled to be received more than one year after the balance sheet date are shown as increases in temporarily restricted net assets and are reclassified to unrestricted net assets when the cash is received and any purpose restrictions are met. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair market value. It is the policy of the Organization to report gifts of land, buildings and equipment as unrestricted support unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions specifying how the assets are to be used and gifts of cash or other assets that must be used to acquire long-lived assets are recorded as restricted support. Absent explicit donor stipulation about how long those long-lived assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service.

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**NOTES TO FINANCIALS STATEMENTS**  
**June 30, 2011 and 2010**

**1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)**

**Accounting 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 may differ from these estimates.

**Cash Equivalents:**

For purposes of the statement of cash flows, the Organization considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents. At times, cash and money market account balances in the Organization's accounts exceed federally insured limits.

**Investments:**

Investments are carried at fair value. Investment gains and losses are included in the statements of activities.

**Income Taxes:**

The Organization is a nonprofit organization as described in Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes. The Organization's tax returns for the years prior to 2007 are generally no longer subject to examination.

**Restricted and Unrestricted Revenue and Support:**

Contributions and support received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

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 or is met through expenditure, temporarily restricted net assets are reclassified to unrestricted net assets.

In accordance with SFAS No. 116, temporarily restricted contributions and grants received and expensed in the same fiscal year are recorded as unrestricted revenue.

**Furniture and Equipment:**

This policy has been amended for upcoming fiscal years. Purchases that are both over \$500 and have an economic life greater than three years will be capitalized at cost. Depreciation is computed using the straight-line method over the estimated useful lives of assets, ranging from three to forty years.

**Discount on Mortgage Origination:**

Home sales to selected families are recorded at the gross amount of payments to be received over the lives of mortgages. Non-interest bearing mortgages have been discounted at various rates ranging from 4.5% to 8.4% based upon prevailing market rates at the inception of the mortgage. Discounts are amortized using the effective interest method over the lives of the mortgages.

**Functional Allocation of Expenses:**

The costs of providing various programs and other activities have been summarized on a functional basis in the Statements of Activities.

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**NOTES TO FINANCIALS STATEMENTS**  
**June 30, 2011 and 2010**

**1. SIGNIFICANT ACCOUNTING PRINCIPLES AND POLICIES (Continued)**

**Construction of Homes:**

Costs incurred to construct homes are capitalized as incurred and recorded as "Homes under construction" on the statements of financial position.

Following is a summary of home building activity for the years ended June 30:

	<b>2011</b>		<b>2010</b>	
	Number	Costs	Number	Costs
Homes under construction	6	\$ 296,402	7	\$ 425,163
Additional costs incurred on beginning inventory	-	211,399	-	132,854
New homes started in fiscal year	2	16,346	1	39,152
Homes transferred in fiscal year	(3)	(234,892)	(2)	(300,767)
Homes under construction at year end	<u>5</u>	<u>\$ 289,255</u>	<u>6</u>	<u>\$ 296,402</u>

**2. INVESTMENTS**

Effective January 1, 2008 the Organization adopted the provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 820, Fair Value Measurements and Disclosures. ASC 820 defines fair value, establishes a framework for measuring fair value in generally accepted accounting principles, and enhances disclosures about fair value measurements. Fair value is defined under ASC 820 as the exchange price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date. Valuation techniques used to measure fair value under ASC 820 must maximize the use of observable inputs and minimize the use of unobservable inputs. The standard describes a fair value hierarchy based on three levels of inputs, of which the first two are considered observable, and the last unobservable, that may be used to measure fair value, which are the following:

Level 1 - Quoted market prices in active markets for identical assets or liabilities.

Level 2 - Inputs other than Level 1 that are observable, either directly or indirectly, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 - Unobservable inputs for the asset or liability. Unobservable inputs shall be used to measure fair value to the extent that the observable inputs are not available, thereby allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**NOTES TO FINANCIALS STATEMENTS**  
**June 30, 2011 and 2010**

**2. INVESTMENTS (Continued)**

The adoption of SFAS 157 did not have a material impact on the Organization's financial position or changes in net assets and its cash flows.

**June 30, 2011:**

	<u>Level 1</u>
Bank insured deposits	\$ 213,759
Money market - endowment	<u>61,849</u>
Total	<u>\$ 275,608</u>

**June 30, 2010:**

	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Bank insured deposits	\$ 56,808	\$ -	\$ 56,808
Certificates of deposit	-	156,000	156,000
Money market - endowment	<u>61,818</u>	<u>-</u>	<u>61,818</u>
Totals	<u>\$ 118,626</u>	<u>\$ 156,000</u>	<u>\$ 274,626</u>

Components of investment income for the years ended June 30, 2011 and 2010 consist of the following:

	<u>2011</u>	<u>2010</u>
Interest and dividends	\$ <u>1,076</u>	\$ <u>825</u>

**3. DONATED SERVICES AND MATERIALS**

The value of donated services are not reflected in the accompanying financial statements since there is no objective basis available by which to measure the value of such services. However, a substantial number of volunteers have donated significant amounts of their time to HHGV's home construction and educational efforts.

The following in-kind donations were either recognized as expenses or included in inventory for the year ended June 30, 2011:

Advertising	\$ 517	
Fundraising	1,510	
Professional fees	500	
Office expenses	3,670	
Cost of homes	<u>8,726</u>	
		<u>\$ 14,923</u>

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**NOTES TO FINANCIALS STATEMENTS**  
**June 30, 2011 and 2010**

**3. DONATED SERVICES AND MATERIALS (Continued)**

The following in-kind donations were either recognized as expenses or included in inventory for the year ended June 30, 2010:

Vehicle expense	\$	102	
Advertising		618	
Home under construction (inventory)		<u>2,831</u>	
			<u>\$ 3,551</u>

**4. TRANSACTIONS WITH HABITAT INTERNATIONAL**

HHGV annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. HHGV contributed \$5,100 and \$6,300 to Habitat International and for the years ended June 30, 2011 and 2010, respectively.

**5. CONTINGENT GAIN ON SALE OF HOMES**

HHGV obtains a second promissory note on all mortgages. This note is a zero interest note for the difference between the appraisal price and the initial sales price of the home. No installment payment is required on this note. The entire principal amount of the note shall be due and payable upon the sale of the mortgaged property prior to the initial mortgage being paid. Since no loans are currently in default, no receivable has been recorded for these notes as of June 30, 2011 or June 30, 2010. There were no such sales for fiscal years ending June 30, 2011 or 2010.

**6. LINE OF CREDIT**

During fiscal year ending June 30, 2006, HHGV established an operating line of credit at U.S. Bank. The line had an available limit of \$100,000 with a stated rate of interest is 0.5% above prime. The line of credit was closed May of 2010.

**7. LONG-TERM DEBT**

	<u>2011</u>	<u>2010</u>
6.0% note payable to James and Linda Houdashelt; dated December 13, 2006 and due May 1, 2036; payable in monthly installments of \$2,698 including principal and interest; secured by building.	\$ 418,870	\$ 424,212
4.0% note payable to Habitat for Humanity International; dated November 6, 2007 and due November 6, 2014; payable in monthly installments of \$2,171 including principal and interest; secured by mortgages receivables.	<u>84,708</u>	<u>106,821</u>
	<u>\$ 503,578</u>	<u>\$ 531,033</u>

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**NOTES TO FINANCIALS STATEMENTS**  
**June 30, 2011 and 2010**

**7. LONG-TERM DEBT (Continued)**

Future maturities of the long-term debt for the years ending June 30 are as follows:

2012	30,554	
2013	31,955	
2014	33,423	
2015	21,340	
2016	9,478	
Thereafter	<u>376,828</u>	
		\$ <u>503,578</u>

**8. ENDOWMENT**

As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions. During the year ended June 30, 2011 and 2010, fees paid for management of endowment funds were \$0 and \$149, respectively.

*Interpretation of Relevant Law*

The Board of Directors has interpreted the Montana Uniform Prudent Management of Institutional Funds Act ("MUPMIFA") 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, the Organization classified 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) any 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 by the Organization in a manner consistent with the standard of prudence prescribed by MUPMIFA. In accordance with MUPMIFA, the Organization considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds:

- (1) The duration and preservation of the fund;
- (2) The purposes of the Organization and the donor-restricted endowment fund;
- (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 the Organization; and
- (7) The investment policies of the Organization.

**HABITAT FOR HUMANITY OF GALLATIN VALLEY, INC.**  
**NOTES TO FINANCIALS STATEMENTS**  
**June 30, 2011 and 2010**

**8. ENDOWMENT (Continued)**

*Funds with Deficiencies*

From time to time, the fair value of assets associated with individual donor-restricted endowment funds may fall below the level that the donor of MUPMIFA requires the Organization to retain as a fund of perpetual direction. As of the June 30, 2011 and 2010, the endowment fund had no such deficiency.

*Return Objectives and Risk Parameters*

The Organization has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding to operations while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Organization must hold in perpetuity or for a donor-specified period(s). The Organization expects its endowment funds, over time, to provide a reasonable level of current income to support the spending policy authorized by the Board of Directors and to grow equity assets. Actual returns in any given year may vary from this amount.

*Strategies Employed for Achieving Objectives*

To satisfy its long-term rate-of-return objectives, the Organization 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). The Organization targets a diversified asset allocation including cash equivalents, fixed income, and equity securities to achieve its long-term return objectives within prudent risk constraints.

*Spending Policy and How the Investment Objectives Relate to Spending Policy*

Currently the Organization has no formal spending policy. The Organization's objective is to preserve the fair value of the endowment assets held in perpetuity or for a specified term as well as to provide additional real growth through new gifts and investment return.

Endowment net asset composition by type of fund is as follows:

**June 30, 2011:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ <u>9,849</u>	\$ <u>-</u>	\$ <u>52,000</u>	\$ <u>61,849</u>

**June 30, 2010:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Donor-restricted endowment funds	\$ <u>9,818</u>	\$ <u>-</u>	\$ <u>52,000</u>	\$ <u>61,818</u>

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**8. ENDOWMENT (Continued)**

**June 30, 2011:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Totals</u>
Endowment net assets, beginning of year	\$ 9,818	\$ -	\$ 52,000	\$ 61,818
Investment return:				
Investment income, net	-	31	-	31
Board release of restriction	<u>31</u>	<u>(31)</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,849</u>	<u>\$ -</u>	<u>\$ 52,000</u>	<u>\$ 61,849</u>

**June 30, 2010:**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>2009 Totals</u>
Endowment net assets, beginning of year	\$ 9,942	\$ -	\$ 52,000	\$ 61,942
Investment return:				
Investment income, net	-	25	-	25
Investment fees	(149)	-	-	(149)
Board release of restriction	<u>25</u>	<u>(25)</u>	<u>-</u>	<u>-</u>
	<u>\$ 9,818</u>	<u>\$ -</u>	<u>\$ 52,000</u>	<u>\$ 61,818</u>

**9. STATEMENT OF CASH FLOWS**

**Non-cash Transactions:**

During the years ended June 30, 2011 and 2010, the Organization received in-kind donations of \$14,923 and \$3,551, respectively, which included constructions costs and various expenses.

**Cash Paid for Interest:** During the years ended June 30, 2011 and 2010, the Organization paid interest of \$29,755 and \$29,453, respectively. Of those amounts, \$26,344 and \$24,123, respectively, were recorded in ReStore direct expenses.

**10. UNEMPLOYMENT INSURANCE**

In 2006, the Organization elected reimbursable status for unemployment benefit payments in lieu of paying contributions under the normal tax provisions of Montana state law. As a reimbursable employer, the Organization is responsible for reimbursing the state for valid claims paid to former employees, dollar for dollar. In 2009, the Organization established and began making deposits into an unemployment reserve account with First Nonprofit Companies. Any future unemployment benefit claims will be paid from this reserve account. At June 30, 2011 and 2010, the reserve account balances were \$18,434, and \$6,669, respectively.



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**11. PRIOR PERIOD ADJUSTMENT**

An adjustment was made to the year ended June 30, 2010 for the correction of an error. It was determined that all payments to First Nonprofit for unemployment insurance and reserve deposits were expensed during the year ended June 30, 2010. The adjustment reduces unemployment expense and increases the unemployment insurance reserve account (balance sheet account) by \$6,669, which was the balance in the reserve account with First Nonprofit as of June 30, 2010, as noted in footnote 10 above.

**12. SUBSEQUENT EVENTS**

Management has evaluated subsequent events through August 29, 2011, the date on which the financial statements were available to be issued.