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August 11, 2014

Board of Directors
Housing Partnerships, Inc.
1531 13th Street, Suite G-900
Columbus, IN 47201

We have reviewed the audit report prepared by Gauthier & Kimmerling, LLC, for the period January 1, 2012 to December 31, 2012. In our opinion, the audit report was prepared in accordance with the guidelines established by the State Board of Accounts. Per the Independent Public Accountants' opinion, the financial statements included in the report present fairly the financial condition of Housing Partnerships, Inc., as of December 31, 2012, and the results of its operations for the period then ended, on the basis of accounting described in the report.

The Independent Public Accountants' report is filed with this letter in our office as a matter of public record.

Paul D. Joyce

Paul D. Joyce, CPA
State Examiner

HOUSING PARTNERSHIPS, INC.

REPORT ON AUDIT OF CONSOLIDATED FINANCIAL STATEMENTS

December 31, 2012 and 2011

HOUSING PARTNERSHIPS, INC.

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Gauthier & Kimmerling, LLC
accountants & advisors
7340 Shadeland Station • Suite 100 • Indianapolis, IN 46256 • (317) 572-1130

Independent Auditors' Report

To the Directors
Housing Partnerships, Inc.
Columbus, Indiana

We have audited the accompanying financial statements of Housing Partnership Inc., which comprise the consolidated statements of financial position as of December 31, 2012 and 2011, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated 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 consolidated financial statements based on our audits. We conducted our audit for the year ended December 31, 2012 in accordance with auditing standards generally accepted in the United States of America. We conducted our audit for the year ended December 31, 2011 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 audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Housing Partnership Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Gauthier & Kimmerling, LLC

August 14, 2013

HOUSING PARTNERSHIP INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
DECEMBER 31,

	2012				2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
ASSETS							
Cash and cash equivalents	$ 233,234	$ -	$ -	$ 233,234	$ 276,129	$ -	$ 276,129
Security/rent deposits	27,807	-	-	27,807	26,362	-	26,362
Replacement reserve	20,573	-	-	20,573	5,510	-	5,510
Accounts receivable	12,952	-	-	12,952	3,503	-	3,503
Accounts receivable - related party (Note 4)	309,498	-	-	309,498	51,250	-	51,250
Contracts receivable	-	-	-	-	20,000	-	20,000
Mortgages receivable (Note 6)	207,963	-	-	207,963	241,226	-	241,226
Building materials inventory	5,431	-	-	5,431	5,431	-	5,431
Investments	-	871	11,227	12,098	-	-	-
Property held for development	-	-	-	-	85,597	-	85,597
Property and equipment, net (Note 5)	5,885,604	-	-	5,885,604	6,161,907	-	6,161,907
Other assets, net of accumulated amortization of $25,589 in 2012 and $24,280 in 2011	2,904	-	-	2,904	4,213	-	4,213
Total Assets	$ 6,705,966	$ 871	$ 11,227	$ 6,718,064	$ 6,881,128	$ -	$ 6,881,128
LIABILITIES AND NET ASSETS							
Accounts payable	$ 33,252	$ -	$ -	$ 33,252	$ 39,572	$ -	$ 39,572
Notes payable (Note 13)	3,090,675	-	-	3,090,675	3,552,625	-	3,552,625
Accrued interest payable	9,212	-	-	9,212	9,212	-	9,212
Accrued property taxes	24,044	-	-	24,044	20,585	-	20,585
Security/rent deposits liability	31,293	-	-	31,293	29,409	-	29,409
Total Liabilities	3,188,476	-	-	3,188,476	3,651,403	-	3,651,403
Unresricted Net Assets:							
Board designated (Note 8)	16,677	-	-	16,677	16,677	-	16,677
Undesignated	3,500,813	-	-	3,500,813	3,213,048	-	3,213,048
Temporarily restricted net assets	-	871	-	871	-	-	-
Permanently restricted net assets	-	-	11,227	11,227	-	-	-
Total Net Assets	3,517,490	871	11,227	3,529,588	3,229,725	-	3,229,725
Total Liabilities and Net Assets	$ 6,705,966	$ 871	$ 11,227	$ 6,718,064	$ 6,881,128	$ -	$ 6,881,128

The accompanying notes are an integral part of the financial statements

HOUSING PARTNERSHIP INC.
CONSOLIDATED STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED DECEMBER 31

	2012				2011		
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Total
REVENUES							
Federal grants	$ -	$ -	$ -	$ -	$ -	$ 2,953	$ 2,953
Contractual income (Note 10)	1,172,203	-		1,172,203	667,141	-	667,141
Private grants and contributions	29,924	-	11,227	41,151	17,102	-	17,102
Fee for service	57,522	-	-	57,522	61,740	-	61,740
Rental income (Note 7)	710,520	-	-	710,520	694,778	-	694,778
Insurance proceeds	7,336	-	-	7,336	62,613	-	62,613
Investment income, net of fees	-	871	-	871	-	-	-
Interest income	47	-	-	47	400	-	400
Gain on forgiveness of debt	8,500	-	-	8,500	68,000	-	68,000
Developer fee income (Note 4)	444,375	-	-	444,375	-	-	-
Other income	65,546	-	-	65,546	15,873	-	15,873
Total revenue	2,495,973	871	11,227	2,508,071	1,587,647	2,953	1,590,600
Net assets released from restrictions	-	-	-	-	2,953	(2,953)	-
Total Revenue	2,495,973	871	11,227	2,508,071	1,590,600	-	1,590,600
EXPENSES							
Program services	2,011,722	-	-	2,011,722	1,576,192	-	1,576,192
Supporting services	184,390	-	-	184,390	177,438	-	177,438
Total Expenses	2,196,112	-	-	2,196,112	1,753,630	-	1,753,630
Change in net assets	299,861	871	11,227	311,959	(163,030)	-	(163,030)
Net assets - beginning of year	3,229,725	-	-	3,229,725	3,392,755	-	3,392,755
Consolidation of Armory Equity (Note 11)	-	-	-	-	26,194	-	26,194
Net assets (restated) - beginning of year	3,217,629	-	-	3,217,629	3,392,755	-	3,392,755
Net assets - end of year	$ 3,517,490	$ 871	$ 11,227	$ 3,529,588	$ 3,229,725	$ -	$ 3,229,725

The accompanying notes are an integral part of the financial statements

HOUSING PARTNERSHIP INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER 31, 2012

	PROGRAM SERVICES						SUPPORTING SERVICES	
	Home Ownership	Armory Management	Rental Management	Rental Construction	Repair Services	Total Program Services	Management and General	Grand Total
Salaries and wages	$ -	$ 5,484	$ 116,448	$ 916	$ 219,230	$ 342,078	$ 63,342	$ 405,420
Payroll taxes	-	341	8,290	67	15,753	24,451	10,585	35,036
Fringe benefits	-	1,445	26,678	217	49,956	78,296	14,478	92,774
Interest	-	-	126,461	-	-	126,461	14,545	141,006
Insurance, taxes, and fees	-	28,636	101,723	-	14,398	144,757	35,485	180,242
Property Management fees	-	9,000	-	-	-	9,000	-	9,000
Repairs and maintenance	-	19,131	110,435	-	24,423	153,989	1,472	155,461
Supplies and Materials	-	-	-	-	682,120	682,120	-	682,120
Grounds Maintenance	-	565	-	-	-	565	-	565
Extermination	-	610	-	-	-	610	-	610
Utilities	-	12,620	6,864	3	1,938	21,425	454	21,879
Leasing fees	-	4,271	-	-	-	4,271	-	4,271
Training	-	32	58	727	1,071	1,888	112	2,000
Tools and equipment	-	-	2,072	-	1,568	3,640	-	3,640
Telephone	-	2,343	2,115	19	3,680	8,157	994	9,151
Postage	-	23	606	1	666	1,296	169	1,465
Office expenses	-	1,938	3,283	21	6,244	11,486	1,407	12,893
Depreciation and Amortization	-	70,747	250,248	-	-	320,995	7,560	328,555
Legal and professional	437	1,208	11,309	2,536	17,182	32,672	33,088	65,760
Travel	-	2	8,888	49	6,514	15,453	17	15,470
Miscellaneous	176	7,905	13,809	5	-	21,895	-	21,895
Vehicle	-	-	1,043	-	2,815	3,858	-	3,858
Advertising	-	1,407	201	-	700	2,308	-	2,308
Bad debt expense	-	-	-	-	-	-	-	-
Volunteer support	-	-	-	-	51	51	682	733
Total	$ 613	$ 167,708	$ 790,531	$ 4,561	$ 1,048,309	$ 2,011,722	$ 184,390	$ 2,196,112

The accompanying notes are an integral part of the financial statements

HOUSING PARTNERSHIPS, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED DECEMBER, 31, 2011

	PROGRAM SERVICES						SUPPORTING SERVICES	
	Home Ownership	Armory Management	Rental Management	Rental Construction	Repair Services	Total Program Services	Management and General	Grand Total
Salaries and wages	$ 303	$ 4,350	$ 93,261	$ 7,607	$ 172,410	$ 277,931	$ 62,918	$ 340,849
Payroll taxes	23	326	6,974	569	12,917	20,809	5,350	26,159
Fringe benefits	50	807	17,866	1,274	33,628	53,625	16,390	70,015
Interest	-	-	128,269	-	-	128,269	18,605	146,874
Insurance, taxes, and fees	-	24,026	88,458	3,266	-	115,750	32,030	147,780
Property Management fees	-	9,000	-	-	-	9,000	-	9,000
Repairs and maintenance	-	30,487	53,848	-	-	84,335	1,793	86,128
Supplies and materials	-	-	-	-	440,965	440,965	-	440,965
Grounds Maintenance	-	654	-	-	-	654	-	654
Extermination	-	740	-	-	-	740	-	740
Utilities	6	11,642	6,686	135	2,555	21,024	931	21,955
Leasing fees	-	3,140	-	-	-	3,140	-	3,140
Training	3	90	2,082	373	3,505	6,053	828	6,881
Tools and equipment	-	-	2,238	1,100	1,007	4,345	-	4,345
Telephone	4	2,473	1,070	102	1,901	5,550	637	6,187
Postage	1	14	465	19	543	1,042	190	1,232
Office expenses	10	1,204	738	118	519	2,589	1,296	3,885
Depreciation and Amortization	-	70,763	243,945	-	-	314,708	7,947	322,655
Legal and professional	46	4,423	25,011	259	14,388	44,127	21,492	65,619
Travel	-	1	7,953	1,639	3,750	13,343	6	13,349
Miscellaneous	569	8,102	5,786	104	1,254	15,815	5,663	21,478
Vehicle	-	-	4,173	175	1,957	6,305	-	6,305
Advertising	2	1,886	483	50	1,230	3,651	-	3,651
Bad debt expense	-	-	2,200	-	-	2,200	-	2,200
Volunteer support	-	-	13.000	70	139.000	222	1,362	1,584
Total	$ 1,017	$ 174,128	$ 691,519	$ 16,860	$ 692,668	$ 1,576,192	$ 177,438	$ 1,753,630

The accompanying notes are an integral part of the financial statements

HOUSING PARTNERSHIPS, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31,

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	$ 311,959	$ (163,030)
Adjustments to reconcile change in net assets to net cash provided by (used in) operations:		
Depreciation	327,246	321,327
Amortization	1,309	1,328
Bad debt expense	-	2,200
Gain on investments	(871)	-
Forgiveness of debt	(8,500)	(65,837)
Decrease (increase) in operating assets:		
Accounts receivable	(9,449)	(3,627)
Accounts receivable - Related Party	(221,462)	(51,250)
Contracts receivable	20,000	(20,000)
Damage/rent deposits	(1,445)	(1,085)
Increase (decrease) in operating liabilities:		
Damage/rent deposits liability	1,884	650
Accrued property taxes	3,459	-
Accounts payable	(6,320)	24,392
Net Cash Provided By (Used In) Operating Activities	417,810	45,068
CASH FLOWS FROM INVESTING ACTIVITIES		
Payments received on mortgages receivable	33,263	44,991
Withdrawal of reserve funds	(15,063)	10,517
Purchase of investments	(11,227)	-
Purchase of properties	(2,130)	(3,467)
Improvements to properties	-	(56,298)
Net Cash Provided By (Used In) Investing Activities	4,843	(4,257)
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes payable	521,339	1,252,428
Payments on notes payable	(974,789)	(1,207,752)
Net Cash Provided By (Used In) Financing Activities	(453,450)	44,676
Net increase (decrease) in cash	(30,797)	85,487
Cash - beginning of year	276,129	190,642
Cash - end of year	$ 245,332	$ 276,129
Interest paid during the year, net of $3,467 and $6,895 capitalized in 2012 and 2011, respectively	$ 139,140	$ 159,216
Non-cash Transactions:		
Forgiveness of debt	$ 8,500	$ 68,000

The accompanying notes are an integral part of the financial statements

1. NATURE OF THE ORGANIZATION

Housing Partnerships, Inc. (HPI) provides programs and processes that make affordable housing available to people in Bartholomew County, Indiana and surrounding counties.

There are five different programs that HPI provides: home ownership and homeowner repair, The Armory management, rental property development, rental property management, and fee for service. These programs are designed to educate and assist individuals to obtain affordable housing.

A wholly owned subsidiary of HPI, The Armory, Inc., is the general partner in The Armory, L.P., which is a multi-unit apartment complex for the elderly. The limited partners of the Armory, L.P., on January 1, 2011 sold their interests in the partnership to HPI. HPI is also the general partner of HPI Community Housing, L.P.

2. SIGNIFICANT ACCOUNTING POLICIES

These financial statements are prepared on the accrual basis and in accordance with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements include the accounts of HPI and its controlled subsidiaries. All significant intercompany balances and transactions have been eliminated in consolidation.

Unrestricted net assets include all assets over which HPI has full discretion as to use. Temporarily restricted net assets include grant proceeds whose use are restricted by and is limited to grantor imposed stipulations either as to use or timing. As the restrictions are met, the net assets are released from restrictions and included in unrestricted net assets. Permanently restricted net assets include net assets subject to donor-imposed stipulations that neither expire by the passage of time nor can be fulfilled or otherwise removed by actions of management.

Grant proceeds used for operating support are recorded as unrestricted revenue when received. Other grant proceeds are recorded as restricted revenue when received pending the release of donor-imposed restrictions, usually as eligible expenditures are made.

For purposes of the statements of cash flows, HPI considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents.

Equipment and vehicles are capitalized if greater than $500 and are recorded at cost or fair market value at the date of donation. Depreciation is recognized over estimated useful lives ranging from three to ten years using the straight-line method. The office building is recorded at cost and depreciated over a useful life of 39 years.

(Continued)

2. SIGNIFICANT ACCOUNTING POLICIES – Continued

Rental property is carried at the original purchase price or fair market value at date of donation, plus the cost of rehabilitation. Interest during the construction period is capitalized. Depreciation is recognized using the straight-line method over estimated useful lives of 27.5 years.

HPI reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying values of such property may not be recoverable. There was no impairment loss recognized in 2012 or 2011.

Accounts receivable are charged to bad debt expense when they are deemed uncollectible upon periodic review by management. Accounting principles generally accepted in the United States of America require the allowance method to be used to recognize bad debts; however, the effect of using the direct write-off method is not materially different from the results that would have been obtained under the allowance method.

Property under development, which consists of home ownership or rental properties, is recorded at cost. Cost includes purchase price and accumulated rehabilitation cost. Unless retained by HPI as a rental unit, the homes are sold to qualifying individuals under the home ownership program. HPI follows the policy of capitalizing interest as a component of the cost of property under development.

HPI uses applicable grant proceeds to reduce the selling price of a property to an amount that is substantially below the cost of rehabilitation. A valuation allowance is used to reduce cost to net realizable value. There was no valuation loss recognized in 2012 or 2011.

The activity for the Armory, L.P. along with the activity of HPI Community Housing, L.P. is consolidated in these financial statements (see Notes 11 and 14).

Permanent financing costs are amortized over the term of the mortgage loan using the straight-line method. Accounting principles generally accepted in the United States of America require that the effective yield method be used to amortize financing costs; however, the effect of using the straight-line method is not materially different from the results that would have been obtained under the effective yield method.

HPI is exempt from income taxation under the Internal Revenue Code Section 501(c)(3); therefore, no expense or liability has been recognized for income taxes in the accompanying financial statements. Management believes that HPI has adequately addressed all relevant tax positions and that there are no unrecorded tax liabilities. Management believes it is no longer subject to income tax examination for years prior to 2009.

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

3. FINANCIAL INSTRUMENTS

HPI maintains its cash in bank deposit accounts that, at times, exceed federally insured limits. As of December 31, 2012 and 2011, there were no such excesses. HPI has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risk on cash and cash equivalents.

4. RELATED PARTIES

HPI is a co-developer in the rehabilitation of Cambridge Square Apartments which is a multi-unit apartment complex. During 2012 and 2011 HPI advanced Cambridge Square Columbus, L.P. funds in the amount of $19,157 and $51,250, respectively, to meet obligations during the rehabilitation of the complex. As of December 31, 2012 and 2011 $19,157 and $51,250, respectively, remains unpaid and is included in accounts receivable – related party.

HPI signed on April 1, 2012 an agreement where HPI became a co-developer in the Cambridge Square Apartments project. As compensation for the performance of co-developer, HPI is to receive $740,625 payable at times as provided in the development agreement. As of December 31, 2012 HPI earned $444,375 of developer fees receiving a payment of $172,812 during 2012. The outstanding balance of $271,563 is included in accounts receivable – related party balance as of December 31, 2012.

HPI is developer in the rehabilitation of the Historic Greensburg Square Apartments project which is a multi-unit apartment complex. During 2012 HPI advanced Historic Greensburg Square, L.P. funds in the amount of $18,778 to meet obligations during the rehabilitation of the complex. As of December 31, 2012 the entire amount remains unpaid and is included in accounts receivable – related party.

5. PROPERTY AND EQUIPMENT

As of December 31, property and equipment consisted of the following:

	2012		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 105,968	$ -	$ 105,968
Office building	274,753	93,486	181,267
Furniture and equipment	85,911	85,911	-
Vehicles	36,137	36,137	-
Rental units	8,703,894	3,105,525	5,598,369
Total	$ 9,206,663	$ 3,321,059	$ 5,885,604

(Continued)

5. PROPERTY AND EQUIPMENT - Continued

	2011		
	Cost	Accumulated Depreciation	Net Book Value
Land	$ 105,968	$ -	$ 105,968
Office building	274,753	86,397	188,356
Furniture and equipment	85,911	85,911	-
Vehicles	36,137	36,137	-
Rental units	8,652,957	2,785,374	5,867,583
Total	$ 9,155,726	$ 2,993,819	$ 6,161,907

Depreciation expense for the years ended December 31, 2012 and 2011 was $327,246 and $321,327, respectively.

6. MORTGAGES RECEIVABLE

As a form of down payment assistance, HPI executes mortgages receivable on the sales of home ownership and lease-purchase properties. These receivables are generally repayable over 15 years with no interest charged. HPI receives a second or third mortgage on the properties. At December 31, 2012 and 2011, the balance of mortgages receivable was $207,963 and $241,226, respectively.

Management regularly reviews the mortgages for collectability and writes off uncollectible loans based on specific circumstances.

As a part of the sale of the home ownership units, HPI may issue forgivable mortgages to assist buyers in qualifying for first mortgages. Repayment is required only if the buyer subsequently sells the property. While the forgivable mortgages are not recorded in HPI's financial records, their effect is to reduce the selling price and, therefore, increase the loss on sale of properties.

7. LEASES

HPI offers one-year leases on single and multiple-family residences to eligible individuals. The cost of the rental units as of December 31, 2012 and 2011, totaled $8,703,894 and $8,652,957, respectively. Rental income for 2012 and 2011 totaled $545,490 and $536,761, respectively.

8. BOARD DESIGNATED FUNDS

HPI's board designated $30,000 for capital improvements to the rental properties. A balance of $16,677 of designated funds remains as of December 31, 2012 and 2011.

9. GRANT ACTIVITY

HPI did not have any grant activity during 2012.

Grant activity for 2011 is as follows:

	Available at 12/31/2010	Awarded in 2011	Expired or Received	Earned	Available at 12/31/2011
Indiana Housing and Community Development					
PD--008-009	$ 2,953	$ -	$ 2,953	$ 2,953	$ -
Total	$ 2,953	$ -	$ 2,953	$ 2,953	$ -

10. CONTRACTUAL INCOME

HPI has entered into a contract with the City of Columbus, Indiana to act as a contractor in connection with the City's Neighborhood Stabilization Program (NSP) grant. HPI has been approved to perform services on 18 projects within the neighborhood project area for a total of $1,604,780. As of December 31, 2012 and 2011, a total of $908,833 and $667,141 was earned, respectively. An amount of $20,000 remains outstanding and is included in contracts receivable as of December 31, 2011.

HPI has entered into a contract with the City of Columbus, Indiana to act as a contractor in connection with the Columbus Housing Improvement Program (CHIP), a program to make improvements to owner-occupied homes impacted by the 2008 flood within the city limits. As of December 31, 2012 a total of $155,790 was earned. The entire amount was received in 2012.

HPI has also entered into a contract with the City of North Vernon, Indiana to act as a contractor with the City's Stellar project. HPI has been approved to perform services on 4 projects within the City. As of December 31, 2012 a total of $107,580 was earned. The entire amount was received in 2012.

11. INVESTMENT IN THE ARMORY, L.P.

HPI has a note receivable from the Armory, L.P. for amounts advanced by Indiana Housing and Community Development Authority (IHCDA). At December 31, 2011, the unpaid balance totaled $482,620. The note provided for interest at the rate of 1% per annum and had a maturity date of January 31, 2013. As the Armory, L.P. was officially dissolved on February 28, 2012, the unpaid balance was written-off as of that date.

In 1998, HPI received a $125,000 grant from the Federal Home Loan Bank under its AHP program. The proceeds were transferred to the partnership for use in the development process. The partnership executed a promissory note under which it agrees to pay HPI $125,000 no later than January 2028. Interest accrues at the rate of 6.5% per annum. Payment of principal and interest is dependent upon the partnership's available cash flow. As the Armory, L.P. was officially dissolved on February 28, 2012, the unpaid balance was written-off as of that date.

(Continued)

11. INVESTMENT IN THE ARMORY, L.P. – Continued

As discussed in Note 1 above, on January 1, 2011 the limited partners of the Armory, L.P. sold their interests in the partnership to HPI. Since HPI, serving as the general partner, effectively controls the partnership's activity, such activity is consolidated in these financial statements; therefore, all significant intercompany balances and transactions have been eliminated in consolidation. As a result of the consolidation, net assets at January 1, 2011 were increased by $26,194.

Balances of selected partnership accounts at December 31, are as follows:

	2012	2011
Net book value of leased property	$ 853,855	$ 923,764
Rental income	$ 100,148	$ 98,121

12. RETIREMENT PLAN

HPI sponsors a 403(b) plan covering all employees who meet eligibility requirements as to length of service and age, who elect to participate. Employer contributions to the plan can be made with a discretionary matching contribution of a percentage of the employees' annual wages. For the years ended December 31, 2012 and 2011, no employer contributions were made to the plan.

13. NOTES PAYABLE

As of December 31, notes payable consisted of the following:

	2012	2011
Old National Bank LOC	$ 80,660	$ 85,086
Main Source Bank LOC	-	55,000
Jackson County Bank LOC	43,000	113,882
First Financial Bank LOC	76,692	103,268
Salin Bank LOC	31,470	101,401
Old National Bank - rental units	544,474	616,881
Fifth Third Bank - office building	117,054	133,081
Jackson County Bank - rental units	388,204	401,929
First Financial Bank - rental units	859,586	900,983
First Financial Bank- partnership	394,950	451,419
IHCDA - Pre-Development	16,260	-
IHCDA - Armory	8,500	17,000
IHCDA - Development Fund	529,825	572,695
Total Notes Payable	$ 3,090,675	$ 3,552,625

Interest expense for 2012 and 2011 totaled $141,006 and $146,874, respectively.

(Continued)

13. NOTES PAYABLE – Continued

HPI maintains a $150,000 unsecured line of credit with Old National Bank, formerly Indiana Bank & Trust Company, which bears interest at the rate of 5.50%. The maturity date is November 28, 2013. The maximum balances outstanding during 2012 and 2011 were $130,660 and $104,623, respectively. The balance outstanding as of December 31, 2012 and 2011 is $80,660 and $85,086, respectively.

HPI maintains a $150,000 unsecured line of credit with Main Source Bank which bears interest at the rate of 1% over prime, which was 6.00% at December 31, 2012. On July 19, 2012, the note was renewed until July 19, 2013. The maximum balance outstanding during 2012 was $55,000. The balance outstanding as of December 31, 2011 is $55,000.

HPI maintains a $150,000 unsecured line of credit with Jackson County Bank which bears an interest rate of 4.25% at December 31, 2012. On March 2, 2013, the note was renewed until March 2, 2014. The maximum balance outstanding during 2012 and 2011 was $80,882 and $85,827, respectively. The balance outstanding as of December 31, 2012 and 2011 is $18,000 and $63,882, respectively.

HPI maintains a $125,000 line of credit, secured with certain assets, with Jackson County Bank which bears interest of 4.25% at December 31, 2012. On March 2, 2013, the note was renewed until March 2, 2014. The maximum outstanding during 2012 and 2011 was $50,000 and $110,248, respectively. The balance outstanding at December 31, 2012 and 2011 is $25,000 and $50,000, respectively.

HPI maintains a $150,000 unsecured line of credit with First Financial Bank which bears interest at the rate of 4.25%. On May 9, 2013, the note was renewed until May 9, 2014. The maximum balance outstanding during 2012 and 2011 was $114,268 and $103,268, respectively. The balance outstanding as of December 31, 2012 and 2011 is $76,692 and $103,268, respectively.

HPI maintains a $150,000 unsecured line of credit with Salin Bank which bears interest at the rate of 5.00%. On October 28, 2012, the note was renewed until October 28, 2013. The maximum balance outstanding during 2012 and 2011 was $101,401. The balance outstanding as of December 31, 2012 and 2011 is $31,470 and $101,401, respectively.

HPI had obtained several mortgages from Old National Bank, formerly Indiana Bank and Trust bearing interest at the rate of 6.75%. Monthly principal and interest payments ranged from $425 to $2,522 and were payable through February 1, 2019. The notes were consolidated into a single note on June 30, 2011 bearing interest at the rate of 6.00% and requiring monthly principal and interest payments of $8,952. The mortgage matures on January 1, 2019 and is collateralized by rental buildings and assignments of leases.

HPI has obtained a mortgage from Fifth Third Bank bearing interest at the rate of 7.34% and requiring monthly principal and interest payments of $2,118. The mortgage matures August 21, 2018, and is collateralized by the office building.

(Continued)

13. NOTES PAYABLE – Continued

HPI has obtained several mortgages from Jackson County Bank bearing interest at rates ranging between 5.25% to 6.40% and requiring monthly principal and interest payments ranging from $663 to $1,453, payable through September 1, 2013. The mortgages are collateralized by buildings and assignments of rents and leases.

HPI has obtained six mortgages from First Financial Bank bearing interest at rates ranging between 5.13% and 6.95%. Monthly principal and interest payments range from $462 to $3,192 and are payable through August 1, 2025. The notes are collateralized by rental buildings and assignments of rents and leases.

As described in Note 14, below, HPI has entered into a partnership with First Financial Bank, formerly Irwin Union Bank. Capital contributions made by the bank to the partnership have been reported herein as notes payable. At December 31, 2012 and 2011 the cumulative amounts contributed were $394,950 and $451,419, respectively.

HPI borrowed $85,000 from IHCDA. The loan matures in January 2013. A portion of the loan may be forgiven at the rate of 1/10 per year in years 6 through 15, if the Project, at IHCDA's discretion, remains in compliance with federal affordability regulations. During 2012 and 2011, $8,500 and $68,000, respectively, was forgiven by IHCDA. The remaining balance is anticipated to be forgiven in 2013. There is no stated interest rate. The proceeds were loaned to The Armory, L.P. with repayment terms equivalent to IHCDA. The remaining $8,500 is included in the total $599,620 owed to HPI as described in Note 11, above.

HPI borrowed from IHCDA a pre-development loan of $16,260 for the Historic Greensburg Square project. There is no stated interest rate. Repayment of the loan will be made upon receipt of capital contributions. As of December 31, 2012 the entire amount remains outstanding.

HPI, in 2008, received a commitment of $588,695 from the Development Loan Fund of IHCDA. Repayment of principal will commence 30 days after the conversion of the note from a construction loan to a term loan. The loan was converted to a term loan in 2010. The loan is interest-free and matures on June 30, 2025. The balance as of December 31, 2012 and 2011 is $529,825 and $572,695, respectively. The loan is collateralized by a mortgage on certain real estate.

Scheduled maturities of notes payable are as follows:

Year ending December 31,	
2013	$ 1,383,068
2014	450,029
2015	146,014
2016	154,158
2017	162,961
Thereafter	794,445
Total	$ 3,090,675

14. FINANCING ARRANGEMENT

In order to provide financing for construction of the rental program units, HPI formed a limited partnership with First Financial Bank, formerly Irwin Union Bank & Trust Company, known as HPI Community Housing, L.P. HPI serves as the general partner and contributed the property to be developed to the partnership. The limited partner, First Financial Bank, contributed cash to the partnership.

The properties are owned by the partnership. When sold, First Financial Bank will receive its capital contribution plus its required annual 5.5% return on its investment.

Since HPI, serving as the general partner, effectively controls the partnership's activity, such activity is consolidated in these financial statements. Accordingly, the limited partner's capital contribution attributed to the five properties is reported as a note payable. See Note 13, above.

Balances of selected partnership accounts at December 31, are as follows:

	2012	2011
Net book value of leased property	$ 385,947	$ 400,775
Rental income	$ 57,682	$ 52,696

15. CONTRIBUTED SERVICES

HPI receives significant volunteer support for its home ownership program. During 2012 and 2011, total volunteer hours were 3,755 and 7,061, respectively. No revenue has been recognized for volunteer services in the two periods, but management estimates the value of such services to be $37,550 and $70,610 for 2012 and 2011, respectively.

16. PROPERTY TAX APPEAL

Through 2004, all rental properties owned by HPI were exempt from paying property taxes. After 2004, acquisitions of rental properties were assessed a property tax while the previously acquired properties remained exempt. In 2006, the Bartholomew County Assessor removed the exemptions from the properties acquired prior to 2005. HPI appealed this action as well as the assessment of property taxes on properties acquired after 2004. HPI has ultimately appealed the ruling to the State Court of Tax Appeal. Since the appeal process has begun, HPI has continued paying the property taxes on the properties acquired after 2004.

At December 31, 2012, according to the Bartholomew County Treasurer, HPI owes $355,276 in past due taxes on the properties that were originally exempt. It is the belief of management that there is more than a remote possibility that the exemption of property taxes will be reinstated or established for all properties. As a result, HPI has not recognized a property tax liability. HPI will not record a property tax receivable for years subsequent to 2004 until the appeal is completed.

17. ENDOWMENT FUNDS

HPI established in 2011 an endowment fund within the Heritage Fund of the Community Foundation of Bartholomew County (the Foundation) to carry out the role and mission of HPI. The HPI Board of Directors interprets the contributions to the fund as unrestricted contributions; however, the Board has earmarked the contributions to fulfill the mission of the fund. The annual earnings may be committed, granted or expended pursuant to the Foundation's spending policy. Since the corpus of the fund is not available to HPI, it is considered permanently restricted.

The Foundation maintains sole discretion to carry out the purposes of the fund including the power to invest the funds as deemed appropriate. Annual earnings, net of fees and expenses shall be granted or expended for purposes as described in the Endowment Agreement dated May 5, 2011.

Activity of the endowment fund for 2012 is as follows:

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Endowment net assets, beginning of year	$ -	$ -	$ -	$ -
Contributions	-	-	11,227	11,227
Invèstment gain, net of fees	-	871	-	871
Appropriation of endowment assets for expenditures	-	-	-	-
Endowment net assets, end of year	$ -	$ 871	$ 11,227	$ 12,098

18. RESTRICTED ASSETS

As of December 31, 2012, restricted net assets consisted of the following amounts:

	Temporarily Restricted	Permanently Restricted	Total
Endowment Fund	$ 871	$ 11,227	$ 12,098

The endowment portion included in permanently restricted consists of contributions received as discussed in Note 17, above.

19. STRATEGIC ALLIANCE

The Board of Directors of HPI and the Aging & Community Services of South Central Indiana (ACSSCI), in 2011, approved a strategic alliance between the two entities. As agreed upon, HPI and ACSSCI will remain independent legal entities. In accordance with a management agreement, HPI will reimburse ACSSCI for the Executive Director's time devoted to HPI. On April 22, 2013, Thrive Alliance was formed, which is an umbrella company encompassing both HPI and ACSSCI. HPI and ACSSCI will remain separate legal entities which will partner with each other in order to serve more people effectively.

20. FAIR VALUE MEASUREMENTS

In accordance with the Accounting Standards Codification (ASC) 820, *Fair Value Measurement and Disclosures,* HPI measures its assets at fair value using a three-level hierarchy that prioritizes the inputs used to measure fair value. The hierarchy requires that entities maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The three levels of inputs used to measure fair value are as follows:

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

Level 2: Quoted prices for similar assets or liabilities in active markets.

Level 3: Unobservable inputs for the asset or liability, based on best available information.

HPI's investment in the Community Foundation of Bartholomew County is stated at fair value based upon a report provided by the Foundation. The report demonstrates that the Foundation's investments are stated at market value; however, since the investment by HPI is not considered actively traded, the investment meets the criteria of a level 3 fair value measurement.

The following table sets forth, by level, within the fair value hierarchy, HPI's investments at fair value as of December 31, 2012.

	Level 1	Level 2	Level 3	Total
Community Foundation of Bartholomew County	$ -	$ -	$ 12,098	$ 12,098
Total assets at fair value	$ -	$ -	$ 12,098	$ 12,098

Schedule for measurements using significant unobservable inputs (Level 3) for the year ended December 31, 2012 is as follows:

Balance - January 1, 2012	$ -
Contributions	11,227
Investment income (loss), net of fees	871
Appropriation of assets for expenditures	-
Balance - December 31, 2012	$ 12,098

The fair value of short-term financial instruments, including cash and cash equivalents, accounts and grants receivable, accounts payable and other accrued liabilities, approximates the carrying value in the accompanying financial statements due to the short maturity of such instruments.

The fair value of long-term liabilities approximates the carrying value in the accompanying financial statements based on current borrowing rates.

All methods of assessing fair value result in a general approximation of value and such value may never be realized.

21. SUBSEQUENT EVENTS

Subsequent events have been evaluated through the report date, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.