

**HABITAT FOR HUMANITY
OF NORTH IDAHO, INC.**

**FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007**



Magnuson, McHugh
& Company, P.A.
CPAs and Consultants

INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity of North Idaho, Inc.
Hayden, ID 83835

We have audited the accompanying statements of financial position of Habitat for Humanity of North Idaho, Inc., (a nonprofit corporation) as of June 30, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides 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 North Idaho, Inc. as of June 30, 2008 and 2007, 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.

Magnuson, McHugh, & Co., P.A.

Magnuson, McHugh & Company, P.A.

October 16, 2008

Habitat for Humanity of North Idaho, Inc.

STATEMENTS OF FINANCIAL POSITION June 30, 2008 and 2007

	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 113,078	\$ 208,964
Promises receivable	27,000	3,750
Prepaid and other assets	2,342	549
Construction in process	132,348	273,633
Building lots	315,803	362,119
Noninterest-bearing mortgage loans	1,569,192	1,144,534
Discount on noninterest-bearing loans	(527,522)	(436,663)
Property and equipment, net	<u>803,284</u>	<u>834,784</u>
Total assets	<u><u>\$ 2,435,525</u></u>	<u><u>\$ 2,391,670</u></u>
 LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 22,980	\$ 25,897
Impounds	22,484	19,630
Deferred income	564,384	348,472
Capital lease obligations	8,420	13,893
Notes payable	<u>1,046,004</u>	<u>1,145,839</u>
Total liabilities	<u>1,664,272</u>	<u>1,553,731</u>
Net assets:		
Unrestricted	<u>771,253</u>	<u>837,939</u>
Total liabilities and net assets	<u><u>\$ 2,435,525</u></u>	<u><u>\$ 2,391,670</u></u>

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

Habitat for Humanity of North Idaho, Inc.

STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Years Ended June 30, 2008 and 2007

	2008	2007
REVENUES AND SUPPORT		
Contributions	\$ 48,083	\$ 85,614
In-kind contributions	17,600	6,588
United Way giving	15,034	5,000
Special events	18,306	8,643
Grant income	25,000	37,621
Discount Building Supply store sales	368,110	340,585
Mortgage loan discount amortization	24,566	20,413
Transfers to homeowners	228,825	163,877
Miscellaneous	12,955	15,125
Total unrestricted revenues and support	758,479	683,466
 EXPENSES		
Program services	459,217	318,865
Support services:		
Fund raising	263,763	238,105
Management and general	102,185	95,244
Total expenses	825,165	652,214
 CHANGE IN NET ASSETS	 (66,686)	 31,252
 NET ASSETS, beginning of year	 837,939	 806,687
 NET ASSETS, end of year	 \$ 771,253	 \$ 837,939

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

Habitat for Humanity of North Idaho, Inc.

STATEMENTS OF FUNCTIONAL EXPENSES
For the Years Ended June 30, 2008 and 2007

	Program Services <u>Construction</u>	Supporting Services		Total
		Management and General	Fund Raising	
2008				
Cost of home transfer	\$ 348,476			\$ 348,476
Building materials and supplies	3,675			3,675
Tithe to Habitat International	24,731			24,731
Insurance	2,711	\$ 4,736		7,447
Interest expense	20,438	9,682	\$ 45,847	75,967
Depreciation	2,470	2,595	26,960	32,025
Postage and freight	1,446	299	773	2,518
Office supplies	2,528	1,815	5,852	10,195
Discount Building Supply store expenses			81,898	81,898
Telephone	971	1,529	3,209	5,709
Property tax	1,064			1,064
Professional services		3,298	3,000	6,298
Payroll	33,844	73,213	51,264	158,321
Occupancy costs		1,487	16,544	18,031
Vehicle costs		834	6,426	7,260
Printing	128	21	5,912	6,061
Other costs	15,338	2,676	10,149	28,163
Newsletter and advertising	1,397		5,464	6,861
Special events, direct costs			465	465
Totals	<u>\$ 459,217</u>	<u>\$ 102,185</u>	<u>\$ 263,763</u>	<u>\$ 825,165</u>
2007				
Cost of home transfer	\$ 257,714			\$ 257,714
Building materials and supplies	4,508			4,508
Tithe to Habitat International	25,130			25,130
Insurance	35	\$ 6,449		6,484
Interest expense	18,185	11,245	\$ 45,389	74,819
Depreciation	2,998	4,757	20,014	27,769
Postage and freight	49	594	2,171	2,814
Office supplies	34	4,412	4,746	9,192
Discount Building Supply store expenses			69,496	69,496
Telephone	449	2,180	2,920	5,549
Property tax	726			726
Professional services		5,600		5,600
Payroll		56,188	57,419	113,607
Occupancy costs		1,763	16,975	18,738
Vehicle costs		785	4,966	5,751
Printing	1,241	19	2,486	3,746
Other costs	7,699	1,002	9,018	17,719
Newsletter and advertising	97	250	1,667	2,014
Direct fund raising costs			122	122
Special events, direct costs			716	716
Totals	<u>\$ 318,865</u>	<u>\$ 95,244</u>	<u>\$ 238,105</u>	<u>\$ 652,214</u>

The accompanying "Notes to the Financial Statements"
are an integral part of this statement.

Habitat for Humanity of North Idaho, Inc.

STATEMENTS OF CASH FLOWS For the Years Ended June 30, 2008 and 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (66,686)	\$ 31,252
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	32,025	27,769
Deferred income recognized	(23,411)	(17,313)
Mortgage loan discount amortization	(24,566)	(20,413)
Pre-term retirement of second mortgage	(21,309)	
Forgiveness of debt	(40,000)	(40,000)
Mortgage payments received	69,040	64,801
Effects of changes in assets and liabilities:		
(Increase) decrease in prepaid and other assets	(1,793)	877
(Increase) decrease in promises receivable	(23,250)	7,489
Decrease in construction in progress	187,601	126,015
(Decrease) increase in accounts payable	(2,917)	13,419
Increase in other liabilities	573	100
Net cash provided by operating activities	85,307	193,996
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of building lots		(45,503)
Purchases of equipment and capitalization costs	(525)	(16,743)
Mortgages issued to homeowners	(155,263)	(115,182)
Net cash (used) by investing activities	(155,788)	(177,428)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	(56,981)	(72,090)
Pre-term repayment of long-term debt	37,049	
Repayment of capital lease obligations	(5,473)	(1,263)
Net cash (used) for financing activities	(25,405)	(73,353)
CHANGE IN CASH AND CASH EQUIVALENTS	(95,886)	(56,785)
CASH AND CASH EQUIVALENTS, beginning of year	208,964	265,749
CASH AND CASH EQUIVALENTS, end of year	\$ 113,078	\$ 208,964
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES		
Discount on noninterest-bearing mortgage loans	\$ (24,566)	\$ (20,413)
Transfers to homeowners subject to noninterest bearing mortgage loans	\$ 228,825	\$ 168,584
Property acquired through issuance of debt	\$ -	\$ 114,675
Property acquired through capital lease	\$ -	\$ 15,156
Interest expense	\$ 75,967	\$ 74,819

The accompanying "Notes to the Financial Statements" are an integral part of this statement.

Habitat for Humanity of North Idaho, Inc.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Habitat for Humanity of North Idaho, Inc. (Habitat) (a nonprofit corporation) was incorporated on November 26, 1988. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations. In March of 2004, Habitat for Humanity of North Idaho, Inc. opened Discount Builder's Supply, a store which sells donated building materials to the public as an additional source of fund raising revenue. Revenues from the store are used as the Board deems necessary for general program expenses.

Basis of Accounting - The financial statements of Habitat for Humanity of North Idaho, Inc. have been prepared on the accrual basis of accounting and, accordingly, reflect all significant receivables, payables, and other liabilities.

Cash and Cash Equivalents - Habitat considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

Mortgages Receivable - Mortgages receivable consist of noninterest-bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage. Management believes it is probable that it will be able to collect all amounts due under the contractual terms of the loan agreements and, accordingly, has provided no allowance for uncollectible amounts.

Promises Receivable - Promises receivable are normally received within one year of the time of the pledge.

Property, Equipment, and Depreciation - Property and equipment additions over \$500 are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Depreciation is provided by the straight-line method over the estimated useful lives of the respective assets, ranging from five to forty years.

Building Lots - Building lots consist of property purchased by the organization and awaiting construction for the future homeowners.

Construction in Process - Construction in process consists of various homes that are currently under construction. Completion of these homes is dependent on donations.

Deferred Income - Habitat has implemented an equity-sharing program with new homeowners. Upon timely payment of mortgage payments, Habitat will forgive a portion of the mortgage. After ten (10) years, all equity in the home will accrue to its homeowner.

(Continued)

Habitat for Humanity of North Idaho, Inc.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 1: ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions - Contributions are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in 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 statements of activities and changes in net assets as net assets released from restrictions. Unconditional promises to give are recognized as revenue when the underlying promises are received by Habitat.

Donated Services - The value of donated professional construction services included as in-kind support in the financial statements and corresponding expenses for the years ended June 30, 2008 and 2007, was \$17,600 and \$6,588, respectively.

A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Transfers to Homeowners - Transfers to homeowners are recorded at the gross mortgage amount plus down payment received. Noninterest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as interest income over the term of the mortgage.

Functional Allocation of Expenses - The costs of providing the various programs and other activities have been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Income Taxes - The Organization is a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code and is not subject to taxation of its earnings.

Use of Estimates - The preparation of 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, actual results could differ from those estimates.

NOTE 2: CASH AND CASH EQUIVALENTS

The carrying amount of the Organization's deposits with financial institutions was \$113,078 and the bank balance was \$124,529.

Cash and cash equivalents on deposit with various financial institutions are recorded at cost, which approximates market value, and categorized as follows as of December 31, 2008:

Amount insured by FDIC or other agencies collateralized with securities held by the Organization.	\$114,972
Uninsured	<u>9,557</u>
	<u>\$124,529</u>

(Continued)

Habitat for Humanity of North Idaho, Inc.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 3: PROMISES RECEIVABLE

Promises receivable were \$27,000 and \$3,750 respectively as of June 30, 2008 and 2007.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2008 and 2007 consisted of the following:

	<u>2008</u>	<u>2007</u>
Building	\$815,986	\$815,461
Office equipment	8,960	8,960
Vehicles	37,390	37,390
Store equipment, concession booth and signs	<u>16,534</u>	<u>16,534</u>
	878,870	878,345
Less accumulated depreciation and amortization	<u>(75,586)</u>	<u>(43,561)</u>
Property and equipment, net	<u>\$803,284</u>	<u>\$834,784</u>

NOTE 5: CONSTRUCTION IN PROGRESS

Construction in progress consists of costs incurred on houses not yet completed. There are significant infrastructure costs related to the Millard Place subdivision which will eventually contain twelve homes. During the year, four homes were completed and these costs were expensed upon closing when sold. The balance consists of construction of an additional four homes that began during the year that are in various states of completion.

NOTE 6: CAPITAL LEASE OBLIGATIONS

On March 29, 2007, the organization entered into a capital lease agreement to purchase a tractor for \$15,156. Monthly payments are \$421 for thirty-six months, with no interest. The outstanding lease payable was \$8,420 as of June 30, 2008.

Future payments are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2009	\$4,631
2010	<u>3,789</u>
Total	<u>\$8,420</u>

(Continued)

Habitat for Humanity of North Idaho, Inc.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2008 and 2007

NOTE 7: NOTES PAYABLE

Notes payable at June 30, 2008 and 2007 consisted of the following:

	2008	2007
Note payable to Habitat for Humanity International, Inc., payable in monthly installments of \$52, noninterest bearing. Unsecured.	\$ 940	\$ 1,564
Note payable to Mountain West Bank, due \$83 monthly, noninterest bearing, due October 2011. Secured by property.	3,329	4,329
Note payable to Habitat for Humanity International, due \$706 quarterly, with interest at 4.275%. Secured by mortgages receivable.	1,389	4,079
Note payable to Panhandle State Bank, payable in 35 monthly payments of \$1,058 and one balloon payment of entire unpaid balance on July 20, 2009. Interest at 9.25%. Secured by property.	110,550	112,706
Note payable to Habitat for Humanity International, Inc., payable in monthly installments of \$312, noninterest bearing. Unsecured.	7,512	11,256
Note payable to Panhandle State Bank, payable in 35 monthly payments of \$939 and one balloon payment of entire unpaid balance on July 9, 2009. Interest at 8%. Secured by property.	107,305	109,866
Note payable to Idaho Housing & Finance Association, payable in full on August 16, 2010. Secured by real property. Interim payments to be made of \$9,263.30 on the closing of ten properties. Additionally, a grant of \$10,000 per home on the closing of twelve homes.	58,526	135,580
Note payable to Panhandle State Bank, payable in monthly installments of \$5,461 including interest at 7.25%. Secured by real property.	756,453	766,459
Total notes payable	\$1,046,004	\$1,145,839

Maturities of notes payable are as follows:

Years Ending <u>June 30,</u>	<u>Amount</u>
2009	\$ 23,131
2010	229,162
2011	72,240
2012	13,991
2013	14,690
Thereafter	692,790
Total	\$1,046,004

The entity has a line of credit for \$50,000 with the bank and has an outstanding balance of \$0 at June 30, 2008 and 2007.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2008 and 2007

NOTE 8: TRANSACTIONS WITH HABITAT FOR HUMANITY INTERNATIONAL, INC.

Habitat annually remits a portion of its undesignated contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2008 and 2007, Habitat contributed \$24,731 and \$25,130 to Habitat for Humanity International, Inc., respectively. Such amounts are included in program services expense in the statements of activities and changes in net assets.

NOTE 9: PRIOR PERIOD ADJUSTMENTS

Habitat had a prior period adjustment to mortgages receivable debt for \$4,707 due to an overstatement of prior year. This adjustment lowers net assets by \$4,707 from the prior year. Furthermore, it was determined that construction in progress was understated by \$49,185 due to erroneously over expensing the infrastructure amounts allocated to the various homes in the Millard project. This adjustment increases net assets of \$49,185. The prior period comparative totals have been modified to reflect the adjustments accordingly.

Prior year net assets	\$793,461
Adjustment for construction in progress	49,185
Adjustment for mortgages receivable	<u>(4,707)</u>
Net assets restated	<u>\$837,939</u>