

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

**FINANCIAL STATEMENTS
JUNE 30, 2007 AND 2006**



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, 2007 and 2006, 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, 2007 and 2006, 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 & Company, P.A.

March 18, 2008



Habitat for Humanity of North Idaho, Inc.

STATEMENTS OF FINANCIAL POSITION

June 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
ASSETS		
Cash and cash equivalents	\$ 208,964	\$ 265,749
Promises receivable	3,750	11,239
Prepaid and other assets	549	1,426
Construction in process	224,448	399,658
Building lots	362,119	201,941
Noninterest-bearing mortgage loans	1,149,241	728,727
Discount on noninterest-bearing loans	(436,663)	(316,306)
Property and equipment, net	<u>834,784</u>	<u>830,654</u>
Total assets	<u>\$ 2,347,192</u>	<u>\$ 2,123,088</u>
LIABILITIES AND NET ASSETS		
LIABILITIES:		
Accounts payable	\$ 25,897	\$ 12,478
Impounds	19,630	17,345
Deferred income	348,472	141,039
Capital lease obligations	13,893	
Notes payable	<u>1,145,839</u>	<u>1,145,539</u>
Total liabilities	<u>1,553,731</u>	<u>1,316,401</u>
NET ASSETS:		
Unrestricted	<u>793,461</u>	<u>806,687</u>
Total liabilities and net assets	<u>\$ 2,347,192</u>	<u>\$ 2,123,088</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
REVENUES AND SUPPORT:		
Contributions	\$ 85,614	\$ 84,690
In-kind contributions	6,588	14,578
United Way giving	5,000	6,000
Special events	8,643	3,988
Grant income	37,621	112,308
Discount Building Supply store sales	340,585	326,093
Mortgage loan discount amortization	20,413	19,701
Transfers to homeowners	168,584	
Miscellaneous	15,125	2,760
Total unrestricted revenues and support	<u>688,173</u>	<u>570,118</u>
EXPENSES:		
Program services	368,050	36,504
Support services:		
Fund raising	238,105	181,053
Management and general	95,244	60,042
Total expenses	<u>701,399</u>	<u>277,599</u>
CHANGE IN NET ASSETS	(13,226)	292,519
NET ASSETS, beginning of year	<u>806,687</u>	<u>514,168</u>
NET ASSETS, end of year	<u>\$ 793,461</u>	<u>\$ 806,687</u>

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, 2007 and 2006

	Program Services Construction	Supporting Services		Total
		Management and General	Fund Raising	
2007				
Cost of home transfer	\$ 306,899			\$ 306,899
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>\$ 368,050</u>	<u>\$ 95,244</u>	<u>\$ 238,105</u>	<u>\$ 701,399</u>
2006				
Building materials and supplies	\$ 8,675			\$ 8,675
Tithe to Habitat International	17,849			17,849
Insurance	2,052	\$ 3,229		5,281
Interest expense	2,214	2,920	\$ 12,418	17,552
Depreciation	1,059	1,529	9,269	11,857
Postage and freight	100	998	3,484	4,582
Office supplies	730	980	2,044	3,754
Discount Building Supply store expenses			122,716	122,716
Telephone	210	439	210	859
Property tax		(194)		(194)
Professional services		5,350		5,350
Payroll		32,084		32,084
Occupancy costs	2,900	5,800	20,289	28,989
Vehicle costs			921	921
Printing		2,339	4,377	6,716
Other costs	715	4,568	3,223	8,506
Newsletter and advertising			464	464
Direct fund raising costs			1,638	1,638
Totals	<u>\$ 36,504</u>	<u>\$ 60,042</u>	<u>\$ 181,053</u>	<u>\$ 277,599</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, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ (13,226)	\$ 292,519
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	27,769	11,857
Deferred income recognized	(17,313)	(19,453)
Mortgage loan discount amortization	(20,413)	(19,701)
Transfers to homeowners		
Forgiveness of debt	(40,000)	
Mortgage payments received	60,084	55,613
Effects of changes in assets and liabilities:		
(Increase) decrease in:		
Prepaid and other assets	877	1,134
Promises receivable	7,489	(4,182)
Construction in progress	175,210	(148,034)
Increase (decrease) in:		
Accounts payable	13,419	4,187
Other liabilities	100	
Net cash provided by operating activities	<u>193,996</u>	<u>173,940</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of building lots	(45,503)	
Purchases of equipment and capitalization costs	(16,743)	(24,452)
Mortgages issued to homeowners	(115,182)	
Net cash (used) by investing activities	<u>(177,428)</u>	<u>(24,452)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of long-term debt	(72,090)	(41,153)
Repayment of capital lease obligations	(1,263)	
Net cash (used) for financing activities	<u>(73,353)</u>	<u>(41,153)</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(56,785)	108,335
CASH AND CASH EQUIVALENTS, beginning of year	<u>265,749</u>	<u>155,226</u>
CASH AND CASH EQUIVALENTS, end of year	<u>\$ 208,964</u>	<u>\$ 263,561</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH ACTIVITIES:		
Discount on noninterest-bearing mortgage loans	<u>\$ (20,413)</u>	<u>\$ (19,701)</u>
Transfers to homeowners subject to noninterest bearing mortgage loans	<u>\$ 168,584</u>	<u>\$ -</u>
Property acquired through issuance of debt	<u>\$ 114,675</u>	<u>\$ 1,139,553</u>
Property acquired through capital lease	<u>\$ 15,156</u>	<u>\$ -</u>
Interest expense	<u>\$ 74,819</u>	<u>\$ 17,552</u>

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, 2007 and 2006

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.

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Habitat for Humanity of North Idaho, Inc.

NOTES TO THE FINANCIAL STATEMENTS

June 30, 2007 and 2006

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, 2007 and 2006, was \$6,588 and \$14,578, 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 INVESTMENTS

The carrying amount of the Organization's deposits with financial institutions was \$208,964 and the bank balance was \$221,322.

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, 2007:

Amount insured by FDIC or other agencies collateralized with securities held by the Organization.	\$113,253
Uninsured	<u>108,069</u>
	<u>\$221,322</u>

(Continued)

Habitat for Humanity of North Idaho, Inc.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 3: PROMISES RECEIVABLE

As of June 30, 2007, Habitat held an unrecorded promise in the amount of \$20,000, the receipt of which is conditioned upon the organization hiring an Executive Director, with payments to be received over a specified employment time period. This conditional promise receivable is not reflected in the accompanying financial statements because, as of June 30, 2007, the condition had not been met. Promises receivable were \$3,750 as of June 30, 2007.

NOTE 4: PROPERTY AND EQUIPMENT

Property and equipment at June 30, 2007 and 2006 consisted of the following:

	<u>2007</u>	<u>2006</u>
Building	\$815,461	\$815,461
Office equipment	8,960	4,741
Vehicles	37,390	22,594
Store equipment, concession booth and signs	<u>16,534</u>	<u>3,650</u>
	878,345	846,446
Less accumulated depreciation and amortization	<u>(43,561)</u>	<u>(15,792)</u>
Property and equipment, net	<u>\$834,784</u>	<u>\$830,654</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 \$13,893 as of June 30, 2007.

Future payments are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2008	\$ 5,052
2009	5,052
2010	<u>3,789</u>
Total	<u>\$13,893</u>

(Continued)

Habitat for Humanity of North Idaho, Inc.

NOTES TO THE FINANCIAL STATEMENTS June 30, 2007 and 2006

NOTE 7: NOTES PAYABLE

Notes payable at June 30, 2007 and 2006 consisted of the following:

	2007	2006
Note payable to Habitat for Humanity International, Inc., payable in monthly installments of \$52, noninterest bearing. Unsecured.	\$ 1,564	\$ 2,188
Note payable to Mountain West Bank, due \$83 monthly, noninterest bearing, due October 2011. Secured by property.	4,329	5,330
Note payable to Habitat for Humanity International, due \$706 quarterly, with interest at 4.275%. Secured by mortgages receivable.	4,079	6,660
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.	112,706	
Note payable to Habitat for Humanity International, Inc., payable in monthly installments of \$312, noninterest bearing. Unsecured.	11,256	14,688
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.	109,866	111,920
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.	135,580	212,633
Note payable to Panhandle State Bank, payable in monthly installments of \$5,461 including interest at 7.25%. Secured by real property.	766,459	792,120
Total notes payable	\$1,145,839	\$1,145,539

Maturities of notes payable are as follows:

Years Ending June 30,	Amount
2008	\$ 22,554
2009	23,149
2010	229,182
2011	149,314
2012	14,014
Thereafter	707,626
Total	\$1,145,839

The entity has a line of credit for \$50,000 with the bank and has an outstanding balance of \$0 at June 30, 2007 and 2006.

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NOTES TO THE FINANCIAL STATEMENTS
June 30, 2007 and 2006

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, 2007 and 2006, Habitat contributed \$25,130 and \$17,849 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: SIGNIFICANT SUBSEQUENT EVENTS

In July 2007, the Organization sold a home for \$148,000, and sold a home in December 2007 for \$147,500.

On October 15, 2007, a mortgage receivable in the amount of \$36,494 was paid in full, and on November 5, 2007, the Organization received a \$20,000 grant from the MJ Murdock Foundation in fulfillment of their conditional grant agreement.

NOTE 10: RECLASSIFICATION OF 2006 COMPARATIVE TOTALS

Certain 2006 amounts presented herein have been reclassified to conform to the 2007 presentation.

NOTE 11: PRIOR PERIOD ADJUSTMENTS

Habitat had a prior period adjustment to long term debt for \$2,188 due to an understatement of long term debt in the prior period and overstatement of interest expense. This adjustment lowers net assets by \$2,188 from the prior year. The prior period comparative totals have been modified to reflect the adjustment accordingly.

Prior year net assets	\$808,875
Adjustment for long term debt	<u>(2,188)</u>
Net assets restated	<u>\$806,687</u>