

HABITAT FOR HUMANITY OF LAKE COUNTY

FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

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*Denise M. Eustace CPA
Mentor, Ohio*

INDEPENDENT AUDITOR'S REPORT

TO THE BOARD OF DIRECTORS
HABITAT FOR HUMANITY OF LAKE COUNTY
PAINESVILLE, OHIO

We have audited the accompanying statements of financial position of Habitat for Humanity of Lake County (HFHLC) as of June 30, 2008 and 2007, and the related statements of activities and cash flow for the year then ended. These financial statements are the responsibility of Habitat for Humanity of Lake County'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. These standards require that we plan and perform our audits 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 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 Lake County as of June 30, 2008 and 2007 and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles accepted in the United States of America.

Denise M. Eustace CPA
Mentor, Ohio
December 29, 2008

STATEMENT OF FINANCIAL POSITION
JUNE 30, 2008
WITH COMPARATIVES TO FY2007

	Temp. Restricted	Unrestricted	2008	2007
ASSETS				
CURRENT ASSETS				
Cash & Cash Equivalents				
Homeowner Escrow	\$	\$	19,767	\$ 10,914
Restore	36,400		36,400	
Operating Funds		103,343	103,343	56,699
Total Cash	36,400	123,110	159,510	67,613
Other Current Assets				
Grants Receivable		434	434	56,528
Credit Cards Receivable		3,634	3,634	
Homeowners in Progress (note 4)		89,655	89,655	271,484
Non-Interest Bearing Mortgage				
Loans: Current Portion (note 8)		53,000	53,000	46,971
Under-funded Homeowners Escrow		7,508	7,508	7,508
Inventory - Building Materials		3,050	3,050	3,050
Inventory - Land & Lot		32,868	32,868	51,017
Total Other Current Assets		190,149	190,149	436,558
Total Current Assets	36,400	313,259	349,659	504,171
Property & Equipment (notes 2 & 6)				
Warehouse		44,240	44,240	44,240
Truck		9,090	9,090	9,500
		53,330	53,330	53,740
Less Accumulated Depreciation		(16,324)	(16,324)	(15,124)
Total Property & Equipment		37,006	37,006	38,616
OTHER ASSETS				
Non-Interest Bearing Mortgage Loans (Note 8)		1,083,714	1,083,714	922,163
Less: Discount		(255,220)	(255,220)	(302,592)
		828,494	828,494	619,571
Deposits				1,000
Total Other Assets		828,494	828,494	620,571
TOTAL ASSETS	36,400	1,178,759	1,215,159	1,163,358
LIABILITIES AND NET ASSETS				
LIABILITIES				
Current Liabilities				
Homeowner Escrow Deposits		19,767	19,767	10,914
Accounts Payable & Misc Payables		9,020	9,020	3,210
Shop Grants Payable		1,729	1,729	10,339
Total Current Liabilities		\$30,516	\$30,516	\$24,463
NET ASSETS				
Unrestricted		1,184,643	1,184,643	1,108,895
Temporarily Restricted				30,000
Total Net Assets		1,184,643	1,184,643	1,138,895
TOTAL LIABILITIES AND NET ASSETS	\$ 36,400	\$ 1,178,759	\$ 1,215,159	\$ 1,163,358

**STATEMENT OF ACTIVITIES
JUNE 30, 2008
WITH COMPARATIVES TO FY2007**

	Temporarily Restricted	Unrestricted	2008	2007
INCOME				
CURRENT ASSETS				
Contributions				
Grants	\$ 8,000	\$	\$ 8,000	\$ 134,450
Individuals		6,561	6,561	32,051
Organizations & Foundations		17,684	17,684	26,895
Churches		1,175	1,175	1,841
Businesses		12,045	12,045	5,696
Donated Services & Materials		2,500	2,500	7,580
Transfers		24,310	24,310	
Donated Rent		1,800	1,800	3,600
Golf Outing		37,134	37,134	
Restore Sales	52,947		52,947	
Other		27,733	27,733	12,686
Total Contributions	<u>60,947</u>	<u>130,942</u>	<u>191,889</u>	<u>224,799</u>
Program Income				
Sale of Homes		379,134	379,134	310,382
Second Mortgage Received				
Existing Mortgage Discount Income		27,841	27,841	33,018
Investment Interest		916	916	496
Miscellaneous				
Total Program Income	<u>-</u>	<u>407,891</u>	<u>407,891</u>	<u>343,896</u>
 TOTAL INCOME	 <u>60,947</u>	 <u>538,833</u>	 <u>599,780</u>	 <u>568,695</u>
Expense				
Program Services		447,962	447,962	117,671
Management & General		98,750	98,750	17,007
Fund Raising		31,784	31,784	13,914
TOTAL EXPENSES		<u>578,495</u>	<u>578,495</u>	<u>148,592</u>
CHANGE IN NET ASSETS	60,947	(39,662)	21,285	420,104
NET ASSETS - Beginning of Year		<u>1,163,358</u>	<u>1,163,358</u>	<u>743,254</u>
NET ASSETS - End of Year	<u>\$ 60,947</u>	<u>\$ 1,123,696</u>	<u>\$ 1,184,643</u>	<u>\$ 1,163,358</u>

STATEMENT OF FUNCTIONAL EXPENSES
JUNE 30, 2008
WITH COMPARATIVES TO FY2007

	2008						
	Program Services		Supporting Services				
	Construction	Mortgage Originations	Management & General	Fund Raising	Total		2007
Personnel							
Salaries & Benefits	\$ 30,061		\$ 6,937	\$ 9,249	\$ 46,247		\$ 48,885
Payroll Tax Expense	8,580		1,980	2,640	13,200		3,697
Employee Benefits	743		171	229	1,143		3,450
Total Personnel	39,384		9,088	12,118	60,590		56,032
Construction							
Contributed Services & Materials	4,311				4,311		4,129
Building Materials & supplies	322,958				322,958		5,249
Total Construction	327,269				327,269		9,378
Mortgage Discount Expense		25,576			25,576		39,757
Telephone	157		2,520		2,677		1,208
Building Expense	42,209		12,632		54,841		548
Depreciation			1,200		1,200		1,200
Office	5,538		5,051		10,589		15,020
Printing	113				113		724
Advertising	472		901		1,373		275
Insurance	(15)		6,587		6,572		3,042
Travel & Conferences	461		2,058		2,519		655
Professional Expenses	4,353		2,116		6,469		10,040
Contract Services			1,210		1,210		1,191
Fundraising				19,306	19,306		
Restore Expenses			55,116		55,116		
Rent & Other Occupancy	1,170		270	360	1,800		3,600
Total Office & Occupancy	26,194		89,661	19,666	163,785		37,503
Habitat for Humanity							
International Tithe	1,275				1,275		5,922
Total Expense	\$ 422,386	\$ 25,576	\$ 98,749	\$31,784	\$578,495		\$148,592

STATEMENT OF CASH FLOWS
JUNE 30, 2008
WITH COMPARATIVES TO FY2007

	<u>2008</u>	<u>2007</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in Net Assets	\$ 21,385	\$ 420,104
Adjustments to Reconcile Change in Net Assets to net cash used in operating activities		
Depreciation	1,200	1,200
Existing Mortgage Discount Income	(27,841)	(54,761)
Transfers to Homeowners, Net of Discounts	(181,046)	(113,000)
Grants & Credit Cards Receivable	52,460	(26,528)
Homeowner Escrow Deposits	(8,343)	20,809
Homeowner Construction in Progress	181,829	(325,923)
Inventory - Land & Lot	18,149	(4,397)
Accounts Payable	5,810	(7,388)
SHOP Grants Payable	(8,610)	(4,495)
NET CASH USED BY OPERATING ACTIVITIES	<u>54,893</u>	<u>(94,380)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Mortgage Payments	<u>53,000</u>	<u>46,971</u>
NET CASH USED PROVIDED BY INVESTING ACTIVITIES	<u>53,000</u>	<u>46,971</u>
NET CHANGE IN CASH	107,893	(47,409)
CASH AT THE BEGINNING OF THE YEAR	51,617	99,025
CASH AT THE END OF THE YEAR	<u>159,510</u>	<u>51,617</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Non-Cash Investing Activities:		
Issuance of Non-Interest Bearing Mortgage Loans	379,134	310,382
Discount of Non-Interest Bearing Mortgage Loans	<u>(29,576)</u>	<u>(39,757)</u>
Transfer to Homeowners Subject to Non-Interest Bearing Mortgage Loans, Net of Discount	<u>\$ 349,558</u>	<u>\$ 270,625</u>

HABITAT FOR HUMANITY OF LAKE COUNTY

NOTES TO THE FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

1. ORGANIZATION AND MISSION

ORGANIZATION

Habitat for Humanity of Lake County (HFHLC) is a 501 (c) (3) nonprofit charitable organization dedicated to eliminating poverty housing by providing a “hands-up” partnership opportunity for low-income, working families to become self-sufficient homeowners and new community stakeholders. As an affiliate of Habitat for Humanity International, PAHFH is part of a worldwide ecumenical, grass roots housing ministry with over 1,600 affiliates in the U.S.A. and 80 other countries.

The organization hired its third executive director in September of 2008.

The organization’s website is www.hfhlakecounty.org.

MISSION

Habitat for Humanity of Lake County (HFHLC) works in partnership with God and all people to develop community by creating decent and affordable housing so that everyone can live, grow, and experience that which God intends.

2. SUMMARY OF SIGNIFICANT ACCOUNTING PRINCIPLES

FINANCIAL STATEMENT PRESENTATION

HFHLC uses the accrual basis of accounting in the preparation of its financial statements. HFHLC has adopted Statement of Financial Accounting Standards No. 117, *Financial Statements of Not-for-Profit Organizations*. Habitat is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets. There are no permanently restricted net assets at June 30, 2008 and 2007.

CASH AND CASH EQUIVALENTS

HFHLC considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

ESTIMATES

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America, 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. Actual results could differ from these estimates.

INCOME TAXES

HFHLC has received exemption from income taxes under Section 501 © (3) of the Internal Revenue Code as a charitable organization whereby only unrelated business income is deemed taxable. Since HFHLC has no unrelated business income, there is recorded allowance for income taxes.

TRANSFER TO HOMEOWNERS

Transfers to homeowners are recorded at the gross amount of payments to be received over the life of the mortgages. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages currently at 5%. Discounts are amortized using the effective interest method over the lives of the mortgages.

These original discounted amounts are reflected in the financial statements as “mortgage discount expense” in the year the mortgage is obtained. The annual amortization of the discount is recorded as “existing mortgage discount income.”

PROPERTY AND EQUIPMENT

Property and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Donated equipment is recorded at fair market value at the date of the gift. Land, building and equipment purchased or donated with a value in excess of \$5,000 is capitalized. Depreciation is computed using the straight-line method over the estimated lives of the respective assets. The estimated useful lives are as follows:

Buildings	20 years
Furniture & Equipment	3-10 years
Transportation	5 years

Depreciation expense was \$1,200 and \$1,200 in 2008 and 2007 respectively.

CONTRIBUTIONS & CONTRIBUTED SERVICES

HFHLC has adopted SFAS 116, *Accounting for Contributions Received and contributions Made*, whereby contributions received are recorded as unrestricted, temporarily restricted, and permanently restricted depending on the existence and/or nature of donor restrictions. Contributions that are restricted by the donor are recorded as an increase in unrestricted net assets if the restriction expires in the reporting period in which the contribution is recognized. All other donor-related contributions are recorded as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributed services must meet the criteria of FASB 116. Accordingly, donated services such as home building, accounting, strategic planning, ect., are not included in the financial statements. Contributions of services that enhance an asset and would otherwise need to be purchased are recognized at their fair market value.

COST RECOGNITION/CONSTRUCTION IN PROGRESS

All direct material, labor and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tool costs are recorded as construction-in-progress on the Statement of Financial Position as they are incurred. Land costs incurred in construction-in-progress are stated at cost or the fair value at the date of contribution. Development costs are included in land costs. When revenue from the sale of the home is recognized, the corresponding costs are then expensed in the Statement of Activities as program services.

ALLOWANCES FOR DOUBTFUL ACCOUNTS

HFHLC has not recorded an allowance for doubtful accounts for the years ended June 30, 2008 and 2007 respectively.

RISK

HFHLC receives substantially all of its income from grants and donations.

COMMITMENTS AND CONTINGENCIES

In addition to the non-interest bearing mortgage received from the sale of each home, HFHLC receives a contingent second mortgage. The second mortgages represent the excess of the market value over the original loan amount of each home sold. Should the homeowner pay off the mortgage early or default on the mortgage, the second mortgage would become due. The second mortgage payout is considered rare and therefore no receivable has been recorded in the financial statements. During the years ended June 30,

2008 and 2007, HFHLC collected -0- and -0- respectively, of second mortgages that were paid off early.

3. MORTGAGES RECEIVABLE

Mortgages receivable are recorded at fair market value. Mortgage receivables are the result of the sale of homes to low-income needy families. The initial mortgage is for the full market value of the home. A percentage of the mortgage will be forgiven if the home owner meets certain criteria including assisting in building and/or improving other housing units. Mortgages remain interest-free unless the homeowner is delinquent on payments at which time they incur a 10% interest penalty. HFHLC determines mortgage payment ability by reviewing the means of the mortgagee.

4. HOME CONSTRUCTION IN PROGRESS

The cost of home building is charged to program services when a home is occupied and a transfer to a homeowner is probable within six months or less. The following is a summary of home building activity for fiscal year 2008.

	<u>Number</u>	<u>Costs</u>
Homes Under Construction, June 30, 2007	5	\$ 271,484
Additional Costs Incurred on Beginning Inventory		(57,491)
New Homes Started in 2008	2	56,708
Homes Transferred in 2008	(3)	<u>(181,046)</u>
Homes Under Construction, June 30, 2008	4	<u>\$ 89,655</u>

5. ESCROW ACCOUNTS

Homeowners are required to pay on a monthly basis along with their mortgage payment an amount sufficient to pay real estate taxes and insurance on the property.

6. WAREHOUSE LEASE

HFHLC has a storage facility on land leased for 20 years at \$1 per annum. The fair value of the lease is \$1,200 per annum.

7. TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat occasionally 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. Habitat contributed \$1,275 and \$5,922 (on or behalf of) Habitat International for the years ended June 30, 2008 and 2007. Such amounts are included in program services expense in the Statement of Activities and Changes in Net Assets.

8. HOMEOWNERS LOANS

Habitat sells homes to program participants in exchange for mortgage notes with no interest. These notes are all payable to HFHLC over 11 to 29 years, and are shown on the Statement of Financial Position and discounted for the time value of money. At June 30, 2008 and 2007, Habitat had 33 and 26 loans outstanding with a gross value of \$1,136,714 and \$969,134 and discounted value of \$881,494 and \$666,542, respectively.

At June 30, 2007, the balances due on the mortgages were scheduled to be paid in future years a follows:

2009	\$ 53.000
2010	53.000
2011	53.000
2012	53.000
2013	53.000
2014 & Thereafter	<u>616,494</u>
	<u>\$ 881,494</u>

9. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of grant receivables restricted for the construction of homes in future periods.