

Habitat for Humanity North Central Georgia, Inc.
Financial Statements
June 30, 2008



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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity North Central Georgia, Inc.

I have audited the accompanying statement of financial position of Habitat for Humanity North Central Georgia, Inc. (a nonprofit organization) as of June 30, 2008, and the related statements of activities, cash flows and functional expenses for the year then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I 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. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity North Central Georgia, Inc. as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

A handwritten signature in black ink that reads 'Robert E. Smith CPA'. The signature is written in a cursive style.

Robert E. Smith, CPA

Marietta, GA

November 18, 2008

Habitat for Humanity North Central Georgia, Inc.
Statement of Financial Position
June 30, 2008

Assets

Cash and Cash Equivalents (Note 2)	\$	591,357
Contribution Receivable (Note 4)		180,502
Grant Receivable		129,350
Other Receivable		127,582
Mortgage Receivable, Net, Current (Note 3)		81,126
Prepaid Expense		9,845
HomeStore Inventory		13,406
Construction in Progress		2,372,161
Land Held for Sale		66,600
Land Held for Development		211,515
Land Sale Receivable (Note 10)		125,427
Fixed Assets, Net (Note 5)		38,951
Mortgages Receivable, Net, Long Term (Note 3)		<u>5,115,083</u>
TOTAL ASSETS	\$	<u>9,062,905</u>

Liabilities and Net Assets

Accounts Payable and Accrued Expense	\$	163,749
Homeowner Deposit		25,019
Unearned Revenue		13,376
Note Payable, Net, Current (Note 6)		2,476,649
Deferred Revenue		168,186
Homeowner Escrow		124,760
Note Payable, Net, Long Term (Note 6)		<u>155,369</u>
TOTAL LIABILITIES	\$	<u>3,127,108</u>
NET ASSETS		
Unrestricted	\$	5,463,218
Temporarily Restricted		472,579
Permanently Restricted		<u>0</u>
TOTAL NET ASSETS	\$	<u>5,935,797</u>
TOTAL LIABILITIES AND NET ASSETS	\$	<u>9,062,905</u>

See Accompanying Notes to the Financial Statements

Habitat for Humanity North Central Georgia, Inc.
Statement of Activities
For the Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 211,051	\$ 1,020,748	\$ 0	\$ 1,231,799
Grant Revenue	81,812	0	0	81,812
House Sales	\$2,812,471			
Imputed Interest on New Mortgages	<u>(1,295,853)</u>	1,516,618	0	1,516,618
Mortgage Discount Amortization (Note 3)	350,014	0	0	350,014
Special Events, Net (Note 8)	(18,088)	0	0	(18,088)
Interest Income	5,724	0	0	5,724
Property Sales	4,367	0	0	4,367
ReStore, Net	12,017	0	0	12,017
Other Income	<u>53,150</u>	<u>0</u>	<u>0</u>	<u>53,150</u>
	2,216,665	1,020,748	0	3,237,413
Net Assets Released from Restrictions (Note 1)	<u>1,241,525</u>	<u>(1,241,525)</u>	<u>0</u>	<u>0</u>
Total revenues, Gains and Other support	<u>3,458,190</u>	<u>(220,777)</u>	<u>0</u>	<u>3,237,413</u>
Expenses				
Program	3,008,021	0	0	3,008,021
Management and General	439,023	0	0	439,023
Fund Raising	<u>224,078</u>	<u>0</u>	<u>0</u>	<u>224,078</u>
Total Expenses	<u>3,671,122</u>	<u>0</u>	<u>0</u>	<u>3,671,122</u>
Change in Net Assets	(212,932)	(220,777)	0	(433,709)
Net Assets at Beginning of Year	<u>5,676,150</u>	<u>693,356</u>	<u>0</u>	<u>6,369,506</u>
Net Assets at End of Year	<u>\$ 5,463,218</u>	<u>\$ 472,579</u>	<u>\$ 0</u>	<u>\$ 5,935,797</u>

See Accompanying Notes to the Financial Statements

Habitat for Humanity North Central Georgia, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2008

	Program	Management and General	Fundraising	2008 Total
Salaries	\$ 325,429	\$ 94,307	\$ 188,512	\$ 608,248
Payroll Taxes/Benefits	<u>34,936</u>	<u>30,886</u>	<u>14,733</u>	<u>80,555</u>
Total Salaries and Benefits	360,365	125,193	203,245	688,803
Cost of Houses Sold	2,359,707	0	0	2,359,707
Property Expenses	27,404	0	0	27,404
Vehicle Expense	15,777	0	0	15,777
Bad Debt Expense	58,537	0	0	58,537
Office Supplies and Expense	89	5,894	36	6,019
Telephone	0	14,769	140	14,909
Postage and Shipping	260	2,307	339	2,906
Occupancy	0	27,309	0	27,309
Insurance	63,755	9,404	0	73,159
Professional Fees	15,656	26,190	0	41,846
Travel/Meals and Entertainment	4,099	7,238	4,537	15,874
Training	0	1,650	885	2,535
Printing and Publications	646	434	7,550	8,630
Retirement Plan Fees	0	1,820	0	1,820
Homeowner and Volunteer Expense	26,574	0	0	26,574
Miscellaneous	4,063	28,885	7,346	40,294
Interest	0	150,617	0	150,617
Loan Fees	0	14,293	0	14,293
Contribution—Habitat International	71,089	0	0	71,089
Repairs and Maintenance	<u>0</u>	<u>4,192</u>	<u>0</u>	<u>4,192</u>
Total Expenses Before Depreciation	<u>\$ 3,008,021</u>	<u>\$ 420,195</u>	<u>\$ 224,078</u>	<u>\$ 3,652,294</u>
Depreciation	<u>0</u>	<u>18,828</u>	<u>0</u>	<u>18,828</u>
Total Expenses	<u>\$ 3,008,021</u>	<u>\$ 439,023</u>	<u>\$ 224,078</u>	<u>\$ 3,671,122</u>

See Accompanying Notes to the Financial Statements

Habitat for Humanity North Central Georgia, Inc.
Statement of Cash Flows
For the Year Ended June 30, 2008

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of Expenses Over Revenue and Support	\$	(433,709)
Adjustments to Reconcile Excess of Expenses Over Revenue and Support to Net Cash Provided by Operating Activities:		
Depreciation		18,828
Other		(1,085)
 (Increase) Decrease in:		
Mortgages Receivable		(871,797)
Accounts Receivable		(35,327)
Grant Receivable		413,604
Contribution Receivable		683,358
Prepaid Expense		395
HomeStore Inventory		(4,977)
Construction in Progress		567,376
Land Held for Construction		(43,681)
Land Held for Sale		11,340
 Increase (Decrease) in		
Accounts Payable/Accrued Expense		51,605
Escrow Accounts		10,129
Unearned Revenue		2,180
Deferred Revenue		152,389
Homeowner Deposits		(391)
 Net Cash Provided (Used) by Operating Activities		520,237
 Cash Flows from Investing Activities:		
Purchases of Property & Equipment		(3,618)
 Net Cash (Used) Provided By Investing Activities		(3,618)
 Cash Flows from Financing Activities		
Loans Payable		(169,684)
 Net Cash (Used) Provided By Financing Activities		(169,684)
 Net Increase (Decrease) in Cash and Cash Equivalents		346,935
Cash and Cash Equivalents at Beginning of the Year		244,422
Cash and Cash Equivalents at End of the Year	\$	591,357
 Supplemental Disclosure of Cash during the Year for:		
Interest	\$	150,617

See Accompanying Notes to the Financial Statements

Habitat for Humanity North Central Georgia, Inc.
Notes to the Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies

A. Organization

Habitat for Humanity North Central Georgia, Inc. (Habitat) was established for the purpose of building homes which could be purchased by low income families selected by Habitat. Habitat for Humanity North Central Georgia, Inc. was formed from the merger of Habitat North Fulton, Lanier Area Habitat and Cherokee County Habitat in January of 2006. Habitat is a nondenominational Christian organization dedicated to building modest, but adequate housing in partnership with community sponsors and volunteer construction labor for responsible low-income families. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International). Although Habitat International assists with information resources, training, publications, flowthrough contributions, and in other ways, Habitat is primarily and directly responsible for its own operations.

North Georgia Community Housing Development Corporation, Inc. (NGCHDO) was formed in 2006 by Habitat to be used as an organization to obtain specific government grant funding that would be passed through to Habitat. The staff of Habitat is on the board of directors of NGCHDO and the Chief Executive Officer of Habitat is the President of NGCHDO. All transactions done by Habitat in partnership with NGCHDO are consolidated in the financial statements of Habitat as no separate books for NGCHDO are maintained at this time.

B. Accounting Method

The financial statements of Habitat are prepared using the accrual method of accounting which is in accordance with generally accepted accounting principles. Revenue is recognized when earned or when unconditional promises to give occur. Contributions are categorized as either unrestricted, temporarily restricted or permanently restricted net assets. Expenses are recognized when incurred. All expenses are reductions to unrestricted net assets. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets.

C. Tax Status

Habitat is a tax exempt, publicly supported non-profit entity under Section 501 (c)(3) of the Internal Revenue Code. Therefore, no taxes are paid on income related to Habitat's tax exempt purpose.

D. Donated Materials and Services

Donated materials and rent are reflected as contributions in the accompanying financial statements at their estimated values on the date of receipt. For the year ended June 30, 2008, donated rent, utilities, and communications expense is estimated by management to be \$25,000. Donated professional services are valued at nonprofit market rates for the services. During this fiscal year Habitat recorded \$5,984 of donated legal services for program related expenses. Habitat has a substantial number of non-professional volunteers who donate services, in Habitat's program, administrative, and fundraising areas. These non-professional services are not recorded.

E. Allocated Expenses

Functional expenses have been allocated among program services, administrative and fundraising classifications on the basis of estimates made by the organization's management.

Habitat for Humanity North Central Georgia, Inc.
Notes to the Financial Statements
June 30, 2008

1. Summary of Significant Accounting Policies, Cont'd

F. Management 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, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts and allocation of revenues and expenses during the reporting period. Actual results could differ from those estimates.

G. Cash and Cash Equivalents

For purposes of the statement of cash flows, cash and cash equivalents are considered to be operating bank accounts and money market accounts.

H. Construction in Progress

Construction in Progress represents those houses which are currently under construction for families. Purchased materials and land for the construction of these houses are recorded at cost. Donated materials, labor and land if applicable, are recorded at their fair market value. Overhead and administration expenses of Habitat's home construction are included in overall program expenses of Habitat.

I. ReStore Inventory

Inventory for the ReStore is stated at net realizable value at June 30, 2008.

2. Cash and Cash Equivalents

Included in cash at June 30, 2008 is restricted cash of \$124,759 which represents escrow held by Habitat for homeowner mortgages. Escrow payments are made as a part of homeowner regular monthly mortgage payments and Habitat as escrow agent, is responsible for timely paying insurance, real property taxes and applicable homeowner association dues from the escrow funds for all homeowners. Habitat maintains a separate bank account for grant funds from the SHOP program as required by the grants.

3. Mortgage Receivable

Habitat holds mortgages on one hundred and forty-seven homes as of June 30, 2008. No interest is charged to the homeowners by Habitat, although for accounting purposes an interest rate is imputed and the mortgages are discounted with discounts being amortized over the life of the loan. Mortgage discount rates used vary from 7.95% to 9.00% according to guidance provided by Habitat International. Management believes all mortgage receivables are recoverable and no allowance for doubtful accounts has been provided at June 30, 2008. All of the mortgage receivables of Habitat serve as collateral for the line of credit with a financial institution.

Habitat for Humanity North Central Georgia, Inc.
Notes to the Financial Statements
June 30, 2008

3. Mortgage Receivable Cont'd

Face values of the mortgages receivable and the discount rate used to calculate imputed interest are as follows:

<u>Discount Rate</u>		<u>Face Value</u>
7.95%	\$	594,173
7.97%		1,305,739
8.00%		2,728,673
8.01%		1,362,155
8.06%		1,267,177
8.14%		1,886,455
8.18%		1,011,384
8.22%		149,731
8.34%		798,322
8.38%		362,969
8.48%		77,748
8.53%		11,904
8.55%		42,757
8.78%		20,064
9.00%		<u>141,936</u>
 Total	 \$	 11,761,187
Less Unamortized Discount		<u>(6,564,978)</u>
Total	\$	<u><u>5,196,209</u></u>

These mortgages at their discounted amounts will be received over the next five years ending June 30 as follows:

2009	\$	<u>81,126</u>	Current portion
2010		87,616	
2011		94,625	
2012		102,195	
2013		110,371	
Thereafter		<u>4,720,276</u>	
		<u>5,115,083</u>	Long Term portion
	\$	<u><u>5,196,209</u></u>	Total mortgages

Habitat for Humanity North Central Georgia, Inc.
Notes to the Financial Statements
June 30, 2008

4. Contributions Receivable

Habitat's contributions receivable consisted of the following at June 30, 2008:

Sponsor Receivable	\$ 178,502
Capital Campaign Receivable	2,000
Total Contributions Receivable	<u>\$ 180,502</u>

The sponsor and capital campaign receivables are considered by management to be current in their entirety and therefore no discount is necessary. Management estimates all receivables as of June 30, 2008 which comprise this contributions receivable balance are collectible and no allowance for doubtful accounts is recorded.

5. Fixed Assets

Fixed assets are stated on the basis of historical cost and/or fair market value at the date of the donation. Depreciation is computed using the straight line method with length of life determined per category of fixed asset. Habitat capitalizes all fixed asset purchases of \$500 or more. Depreciation expense charged to operations in the year ended June 30, 2008 was \$18,828. Accumulated depreciation was \$83,416 as of June 30, 2008.

The following were components of fixed assets at June 30, 2008:

	Cost or FMV	Life
Vehicle	\$ 47,306	5 years
Construction Equipment	12,118	5 years
Office Furniture and Equipment	62,943	5,7 years
	<u>\$ 122,367</u>	

6. Notes Payable

Notes payable at June 30, 2008 consist of the following:

Line of credit, bearing prime rate minus .25% interest payable to a financial institution, interest only in monthly payments, principal due January 31, 2009, collateralized by all assets of Habitat. Under the terms of the borrowing agreement Habitat is obligated to comply with various covenants relating to maintaining a minimum net worth of \$5,750,000 and a minimum debt to equity ratio of 1 to 1. Total line of credit is for \$3,000,000. Highest balance owed during the year was \$2,600,000.	\$	2,435,045
Note payable to Habitat International bearing no interest rate, original value of \$5,625, payable in 48 monthly installments of \$117 with a maturity date of July 1, 2009.	\$	1,413

Habitat for Humanity North Central Georgia, Inc.
Notes to the Financial Statements
June 30, 2008

6. Note Payable (Cont'd)

Note payable to Habitat International bearing no interest rate, original value of \$14,062, payable in 48 monthly installments of \$292 with a maturity date of January 1, 2009.	3,551
Note payable to Habitat International bearing no interest rate, original value of \$21,172, payable in 48 monthly installments of \$441, with a maturity date of July 1, 2008.	2,650
Note payable to Habitat International bearing no interest rate, original value of \$5,625, payable in 48 monthly installments of \$117, with a maturity date of July 1, 2009.	2,115
Note payable to Habitat International bearing no interest rate, original value of \$16,875, payable in 48 monthly installments of \$351, with a maturity date of January 1, 2010.	6,345
Note payable to Habitat International bearing no interest rate, original value of \$14,062, payable in 48 monthly installments of \$292, with a maturity date of July 1, 2010.	7,054
Note payable to Habitat International bearing no interest rate, original value of \$11,250, payable in 48 monthly installments of \$234, with a maturity date of January 1, 2011.	9,846
Note payable to Habitat International bearing no interest rate, original value of \$15,000, payable in 48 monthly installments of \$312, with a maturity date of January 1, 2011.	13,128
Note payable to Habitat International bearing no interest rate, original value of \$7,500 payable in 48 monthly installments of \$156 with a maturity date of January 1, 2011.	6,971

Habitat for Humanity North Central Georgia, Inc.
Notes to the Financial Statements
June 30, 2008

6. Note Payable (Cont'd)

Note payable to Habitat International bearing no interest rate, original value of \$93,750 payable in 48 monthly installments of \$1,953 with a maturity date of January 1, 2013. 93,750

Note payable to Habitat International bearing no interest rate, original value of \$37,500 payable in monthly installments of \$781 with a maturity date of January 1, 2013. 37,500

Note payable to Habitat International bearing no interest rate, original value of \$26,347 payable in monthly installments of \$548 with a maturity date of January 1, 2014. 26,347

Total Notes Payable Before Discount 2,645,715

Imputed interest has been applied in aggregate to the notes payable to Habitat International at a rate of 3.75% on all loans. Remaining unamortized discount at June 30, 2008, (13,697)

Total Notes Payable \$ 2,632,018

Future principal payments over the next five years are as follows:

2009	\$	2,476,649	
2010		50,914	
2011		47,808	
2012		43,806	
2013 and after		26,538	
		<u>\$ 2,645,715</u>	
		(13,697)	Discount
		<u>\$ 2,632,018</u>	Total Note Payable
Current Portion	\$	2,476,649	
Long Term Portion	\$	155,369	
Total Note Payable	\$	<u>2,632,018</u>	

Habitat for Humanity North Central Georgia, Inc.
Notes to the Financial Statements
June 30, 2008

7. Related Parties

Habitat for Humanity North Central Georgia is an affiliate of Habitat for Humanity International. Habitat North Central Georgia receives direct donations from Habitat International, from time to time, as well as donations from other donors who use Habitat International as a conduit of funds. Habitat North Central Georgia contributed \$67,721 to Habitat International in the year ended June 30, 2008. As of June 30, 2008 Habitat North Central Georgia had notes payable to Habitat International in the aggregate amount of \$210,672 and an aggregate receivable of \$129,350 from Habitat International both of which related to federal award grants received by Habitat North Central Georgia from Habitat International as the pass-through entity.

During 2006 and 2007 North Georgia Community Housing Development Corporation, Inc. (NGCHDO) was incorporated and obtained non profit 501(c)(3) status. The corporation's officers are staff members of Habitat North Central Georgia. In the current fiscal year NGCHDO in partnership with Habitat obtained \$114,075 in grants for the purchase and rehabilitation of existing houses.

8. Special Events

During the year ended June 30, 2008, Habitat received special events revenue and incurred the related expenses for an event that occurred as follows:

Revenue Received During Current Year	\$	28,208
Cost of Events in Current Year		<u>(46,296)</u>
Net Revenue(Loss)	\$	(18,088)

In 2007 Habitat received \$35,250 of sponsor donations for the special event which was recognized as temporarily restricted revenue in that year. If the temporarily restricted revenue of \$35,250 was added to the above calculation and \$3,028 of expenses recorded in 2007 as prepaid removed net income of the event would be \$14,134. For the year ended June 30, 2008 Habitat had no unrelated business income tax liability for these events.

9. Commitments and Contingencies

Habitat receives grants from time to time from a federally funded program to purchase building lots. To receive those funds Habitat is required to sign either a ten or fifteen year loan payable to the government entity issuing the grant. The loan is deemed paid in increments equal to annual installments calculated on a straight line basis. At the end of the loan period, if the homes built on the land lots that were purchased with grant funds continue to be mortgaged by a qualified family without refinancing over the loan period, the loan will be deemed paid in full. At June 30, 2008 \$421,323 of these grants which have been received by Habitat may have a future commitment. No liability for these loans is recorded at June 30, 2008 as funds have been used as required and no future liability is expected.

10. Land Sale Receivable

In a prior fiscal year, Habitat was donated a land lot which Habitat deeded to a for profit builder. Habitat has an agreement with the builder to construct a home on the donated lot which will be sold by the builder and land cost plus any profit realized on the sale will be paid to Habitat. At June 30, 2008 Habitat had a long term receivable from the builder for \$125,427 which represented the donated value of the land plus legal and administrative fees associated with the land and the agreement. Management estimates this receivable to be fully collectible and therefore no allowance for doubtful accounts has been calculated at June 30, 2008.

Habitat for Humanity North Central Georgia, Inc.
Notes to the Financial Statements
June 30, 2008

11. Lease Commitments

Habitat has operating leases for office space in each of its three locations. Office space for the North Fulton location is donated. Fair market value for the donation of this rent is \$25,000 per year. For each of the other locations, Cherokee and Lanier, Habitat paid rent in aggregate of \$3,392 per month. Habitat also pays rental fees for office equipment at the North Fulton location. Rental payments (not including the donated rent) over the next five years based on current rental agreements will be \$212,187 in aggregate.

12. Affiliation Commitment

In December 2007, Habitat for Humanity North Central Georgia (Habitat) signed an affiliation agreement with Habitat for Humanity International, Inc. (HFHI) to comply with certain covenants, representations and warranties. Habitat agreed to restrict its operations to a "service area" of a geographic area approved by HFHI, to restrict fund raising to that service area, to conform to certain design criteria for its homes, to make its financial records available to HFHI upon request, to cause its officers, directors, agents and employees to comply with certain core tenets and to be responsible for funding all of its housing programs.

The term of the agreement is for one year and will automatically renew on an annual basis. HFHI may conduct annual evaluations of Habitat's operations and may exercise certain remedies including placing Habitat on probation. Habitat may terminate the agreement upon delivering 180 day written notice however, it must terminate the use of the name "Habitat" or "Humanity" and discontinue use of the group tax exempt status it presently has through HFHI. If Habitat ceases operation but fails to dissolve its corporate existence, HFHI will have the right to transfer the assets of Habitat to a nonprofit designated by HFHI.