

Habitat for Humanity North Central Georgia, Inc.
Financial Statements
June 30, 2007



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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, 2007, 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, 2007, 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.

In 2007, I also conducted my audit of the Organization in compliance with *Government Auditing Standards* and OMB A-133. These financial statements are in accordance with generally accepted accounting principles and are not intended to comply with *Government Auditing Standards* and/or OMB A-133. The additional reports and separate opinion letters for the compliance with *Government Auditing Standards* and OMB A-133 are part of a separate reporting package for the Organization.

A handwritten signature in black ink, appearing to read 'Robert E. Smith CPA', written over a printed name.

Robert E. Smith, CPA

Marietta, GA

February 11, 2008

Habitat for Humanity North Central Georgia, Inc.
Statement of Financial Position
June 30, 2007

Assets

Cash and Cash Equivalents (Note 2)	\$	244,423
Contribution Receivable, Current (Note 4)		863,861
Grant Receivable		542,954
Other Receivable		92,256
Mortgage Receivable, Net, Current (Note 3)		80,525
Prepaid Expense		10,240
HomeStore Inventory		8,429
Construction in Progress		2,939,537
Land Held for Sale		77,940
Land Held for Development		167,834
Land Sale Receivable (Note 11)		125,427
Fixed Assets, Net (Note 5)		53,077
Mortgages Receivable, Net, Long Term (Note 3)		<u>4,243,886</u>
 TOTAL ASSETS	 \$	 <u>9,450,389</u>

Liabilities and Net Assets

Accounts Payable and Accrued Expense	\$	112,143
Homeowner Deposit		25,410
Unearned Revenue		11,197
Note Payable, Net, Current (Note 6)		2,634,444
Deferred Revenue		15,797
Homeowner Escrow		114,633
Note Payable, Net, Long Term (Note 6)		<u>167,259</u>
 TOTAL LIABILITIES	 \$	 <u>3,080,883</u>
 NET ASSETS		
Unrestricted	\$	5,676,150
Temporarily Restricted		693,356
Permanently Restricted		<u>0</u>
 TOTAL NET ASSETS	 \$	 <u>6,369,506</u>
 TOTAL LIABILITIES AND NET ASSETS	 \$	 <u>9,450,389</u>

See Accompanying Notes to the Financial Statements

Habitat for Humanity North Central Georgia, Inc.
Statement of Activities
Year Ended June 30, 2007

	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues, Gains and Other Support				
Contributions	\$ 284,263	\$ 1,081,685	\$ 0	\$ 1,365,948
Grant Revenue	485,261	0	0	485,261
House Sales	\$2,085,321			
Imputed Interest on New Mortgages	(1,231,173)	854,148	0	854,148
Mortgage Discount Amortization (Note 3)	361,501	0	0	361,501
Special Events, Net (Note 8)	62,954	0	0	62,954
Interest Income	5,480	0	0	5,480
Property Sales	25,389	0	0	25,389
ReStore, Net	54,324	0	0	54,324
Other Income	8,263	0	0	8,263
	<u>2,141,583</u>	<u>1,081,685</u>	<u>0</u>	<u>3,223,268</u>
Net Assets Released from Restrictions (Note1)	<u>1,574,394</u>	<u>(1,574,394)</u>	<u>0</u>	<u>0</u>
Total revenues, Gains and Other support	<u>3,715,977</u>	<u>(492,709)</u>	<u>0</u>	<u>3,223,268</u>
Expenses				
Program	2,842,918	0	0	2,842,918
Management and General	307,038	0	0	307,038
Fund Raising	164,243	0	0	164,243
Total Expenses	<u>3,314,199</u>	<u>0</u>	<u>0</u>	<u>3,314,199</u>
Change in Net Assets	401,778	(492,709)	0	(90,931)
Net Assets at Beginning of Year	<u>5,274,372</u>	<u>1,186,065</u>	<u>0</u>	<u>6,460,437</u>
Net Assets at End of Year	<u>\$ 5,676,150</u>	<u>\$ 693,356</u>	<u>\$ 0</u>	<u>\$ 6,369,506</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, 2007

Increase (Decrease) in Cash and Cash Equivalents

CASH FLOWS FROM OPERATING ACTIVITIES

Excess of Revenue and Support Over Expenses	\$	(90,931)
Adjustments to Reconcile Excess of Revenue and Support Over Expense to Net Cash Provided by Operating Activities:		
Depreciation		20,724
(Increase) Decrease in:		
Mortgages Receivable		(646,194)
Accounts Receivable		(35,408)
Grant Receivable		(243,744)
Contribution Receivable		303,403
Prepaid Expense		(3,028)
HomeStore Inventory		(1,875)
Construction in Progress		(2,322,474)
Rental Property		133,674
Land Held for Construction		281,966
Land Held for Sale		(12,940)
Increase (Decrease) in		
Accounts Payable/Accrued Expense		(76,301)
Escrow Accounts		19,814
Unearned Revenue		11,197
Deferred Revenue		(122,261)
Rental Deposits		(9,625)
Homeowner Deposits		19,310
		(2,774,693)
Net Cash Provided (Used) by Operating Activities		
Cash Flows from Investing Activities:		
Purchases of Property & Equipment		(24,603)
Net Cash (Used) Provided By Investing Activities		(24,603)
Cash Flows from Financing Activities		
Loans Payable		2,504,117
Net Cash (Used) Provided By Financing Activities		2,504,117
Net Increase (Decrease) in Cash and Cash Equivalents		(295,179)
Cash and Cash Equivalents at Beginning of the Year		539,602
Cash and Cash Equivalents at End of the Year	\$	244,423
Supplemental Disclosure of Cash during the Year for:		
Interest	\$	109,227

See Accompanying Notes to the Financial Statements

Habitat for Humanity North Central Georgia, Inc.
Statement of Functional Expenses
June 30, 2007

	Program	Management and General	Fundraising	2007 Total
Salaries	\$ 377,293	\$ 71,781	\$ 136,823	\$ 585,897
Payroll Taxes/Benefits	37,136	16,060	15,580	68,776
Total Salaries and Benefits	414,429	87,841	152,403	654,673
Cost of Houses Sold	1,987,502	0	0	1,987,502
Property Expenses	74,612	0	0	74,612
Vehicle Expense	18,142	0	0	18,142
Bad Debt Expense	172,153	0	0	172,153
Office Supplies and Expense	90	4,770	671	5,531
Telephone	988	7,076	109	8,173
Postage and Shipping	236	3,942	30	4,208
Occupancy	0	27,484	0	27,484
Insurance	53,411	0	0	53,411
Professional Fees	38,968	17,544	0	56,512
Travel/Meals and Entertainment	4,899	5,021	1,073	10,993
Training	820	105	456	1,381
Printing and Publications	23	3,398	1,277	4,698
Retirement Plan Fees	0	1,730	0	1,730
Homeowner and Volunteer Expense	11,094	0	0	11,094
Miscellaneous	14,639	15,872	8,224	38,735
Interest	0	109,227	0	109,227
Contribution--Habitat International	50,717	0	0	50,717
Repairs and Maintenance	195	2,304	0	2,499
Total Expenses Before Depreciation	\$ 2,842,918	\$ 286,314	\$ 164,243	\$ 3,293,475
Depreciation	0	20,724	0	20,724
Total Expenses	\$ 2,842,918	\$ 307,038	\$ 164,243	\$ 3,314,199

See Accompanying Notes to the Financial Statements

Habitat for Humanity North Central Georgia, Inc.
Notes to Financial Statements
June 30, 2007

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.

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, 2007, 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 \$37,693 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 Financial Statements
June 30, 2007

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, 2007.

2. Cash and Cash Equivalents

Included in cash at June 30, 2007 is restricted cash of \$114,633 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 thirty-five homes as of June 30, 2007. 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, 2007. Certain of the mortgage receivables serve as collateral for the line of credit with a financial institution.

Habitat for Humanity North Central Georgia, Inc.
Notes to Financial Statements
June 30, 2007

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%	\$ 692,393
7.97%	1,505,259
8.00%	63,653
8.01%	1,481,140
8.06%	1,311,817
8.14%	1,958,048
8.18%	1,155,583
8.22%	160,540
8.34%	838,348
8.38%	388,789
8.48%	83,873
8.53%	13,505
8.55%	44,675
8.78%	22,864
9.00%	<u>189,946</u>
Total	\$ 9,910,433
Less Unamortized Discount	<u>(5,586,022)</u>
Total	<u>\$ 4,324,411</u>

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

2008	\$ 80,525	Current portion
2009	87,093	
2010	94,102	
2011	101,542	
2012	109,592	
Thereafter	<u>3,851,557</u>	
	<u>4,243,886</u>	Long Term portion
	<u>\$ 4,324,411</u>	Total mortgages

Habitat for Humanity North Central Georgia, Inc.
Notes to Financial Statements
June 30, 2007

4. Contributions Receivable

Habitat's contributions receivable consisted of the following at June 30, 2007:

Sponsor Receivable	\$	211,361
Capital Campaign Receivable		652,500
Total Contributions Receivable	<u>\$</u>	<u>863,861</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, 2007 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, 2007 was \$20,724. Accumulated depreciation was \$65,673 as of June 30, 2007.

The following were components of fixed assets at June 30, 2007:

	Cost or FMV	Life
Vehicle	\$ 50,556	5 years
Construction Equipment	12,118	5 years
Office Furniture and Equipment	<u>56,076</u>	5,7 years
	<u>\$ 118,750</u>	

6. Notes Payable

Notes payable at June 30, 2007 consist of the following:

Line of credit payable, bearing 5.95% interest payable to a financial institution, interest only in quarterly payments, principal due October 31, 2007, collateralized by certain mortgages receivable. Total line of credit is for \$2,600,000. Highest balance owed during the year was \$2,600,000.

\$ 2,600,000

Note payable to Habitat International bearing no interest rate, original value of \$11,937, payable in 48 monthly installments of \$248 with a maturity date of January 1, 2007.

\$ 34

Habitat for Humanity North Central Georgia, Inc.
Notes to Financial Statements
June 30, 2007

6. Note Payable (Cont'd)

Note payable to Habitat International bearing no interest rate, original value of \$21,487, payable in 48 monthly installments of \$447 with a maturity date of July 1, 2007. 3,121

Note payable to Habitat International bearing no interest rate, original value of \$15,911, payable in 48 monthly installments of \$331, with a maturity date of July 1, 2008. 3,995

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. 2,818

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. 7,055

Note payable to Habitat International bearing no interest rate, original value of \$21,214, payable in 48 monthly installments of \$441, with a maturity date of July 1, 2008. 7,985

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. 3,520

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. 10,558

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. 10,558

Habitat for Humanity North Central Georgia, Inc.
Notes to Financial Statements
June 30, 2007

6. Note Payable (Cont'd)

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 11,250

Note payable to Habitat International bearing no interest rate, original value of \$15,000 payable in monthly installments of \$312 with a maturity date of January 1, 2011 15,000

Note payable to Habitat International bearing no interest rate, original value of \$7,500 payable in monthly instalments of \$156 with a maturity date of January 1, 2011 7,500

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 48 monthly installments of \$781 with a maturity date of January 1, 2013 37,500

Total Notes Payable Before Discount 2,814,644

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, 2007, (12,941)

Total Notes Payable \$ 2,801,703

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

2008	\$	2,634,410	
2009		41,603	
2010		47,626	
2011		41,286	
2012 and after		<u>49,719</u>	
	\$	2,814,644	
		<u>(12,941)</u>	Discount
	\$	<u>2,801,703</u>	Total Note Payable
Current Portion	\$	2,634,444	
Long Term Portion	\$	167,259	
Total Note Payable	\$	<u>2,801,703</u>	

Habitat for Humanity North Central Georgia, Inc.
Notes to Financial Statements
June 30, 2007

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 \$50,717 to Habitat International in the year ended June 30, 2007. As of June 30, 2007 Habitat North Central Georgia had notes payable to Habitat International in the aggregate amount of \$214,644 and an aggregate receivable of \$542,954 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 (NGCHDC) was incorporated and obtained non profit 501(c)(3) status. The corporation's officers are staff members of Habitat North Central Georgia. The new corporation will seek to obtain specific grant funds which will be used to fund construction projects for Habitat North Central Georgia. During the fiscal year ended June 30, 2007 NGCHDC had no activity.

8. Special Events

During the year ended June 30, 2007, Habitat received special events revenue and incurred the related expenses for those events follows:

Special Events Revenue	\$	146,459
Cost of Events		<u>(83,505)</u>
Net Revenue	\$	62,954

For the year ended June 30, 2007 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, 2007 \$347,395 of these grants which have been received by Habitat may have a future commitment. No liability for these loans is recorded at June 30, 2007 as funds have been used as required and no future liability is expected.

10. Land Sale Receivable

In the 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, 2007 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, 2007.

Habitat for Humanity North Central Georgia, Inc.
Notes to Financial Statements
June 30, 2007

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 \$208,998 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.

13. Purchase Commitment

Habitat made a commitment to purchase a building lot for \$24,000 in April of 2007. The lot was not actually purchased however until after June 30, 2007 and therefore this lot purchase has not been recorded on Habitat's books as of June 30, 2007.

14. Mortgage Funding

Habitat has been approved for participation in the Georgia Dream project with a government entity, to begin during the fiscal year that will end June 30, 2008. For homeowner's who are determined eligible for this project the government entity will substitute a conventional mortgage loan for the discounted no interest mortgage loan from Habitat on an equivalent basis with the resulting monthly payment for the homeowner being the same as it would have been under the Habitat mortgage. The government entity will also provide downpayment assistance to the homeowner which would be paid to Habitat at closing. This program is still in the beginning stages and will apply to only selected new mortgages, having no effect on the existing mortgages Habitat services.