

**HABITAT FOR HUMANITY IN THE
ROANOKE VALLEY, INC.**

FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 2007 AND 2006

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INDEPENDENT AUDITORS' REPORT

**To the Board of Trustees of
Habitat for Humanity in the Roanoke Valley, Inc.**

We have audited the accompanying statements of financial position of Habitat for Humanity in the Roanoke Valley, Inc. as of June 30, 2007 and 2006 and the related statements of activities, 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 audits.

We conducted our audits 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 audits provide a reasonable basis for our opinion.

As explained in Note 3 to the financial statements, store inventory that Habitat for Humanity in the Roanoke Valley, Inc. acquired by gift is not recorded in the financial statements. In our opinion, accounting principles generally accepted in the United States of America require that such donated property be recorded at its fair value at the date of receipt. It was not practicable to determine the effects of the unrecorded inventory on the financial statements.

In our opinion, except for the effects of not recording inventory received by gift as disclosed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity in the Roanoke Valley as of June 30, 2007 and 2006, and the related statements of activities, functional expenses and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Foti, Flynn, Lowen & Company, P. C.

**Roanoke, Virginia
January 12, 2008**

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HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2007 and 2006

ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT ASSETS:		
Cash and cash equivalents	\$ 309,523	\$ 249,922
Restricted cash	18,857	-
Current portion of mortgage receivables (Net of unamortized discount of \$10,238 and \$6,702)	229,356	152,796
Grant receivable	54,150	-
Subsidy receivable	52,599	-
Construction-in-progress and vacant lots	405,220	476,788
Building supplies	3,950	-
	<u>1,073,655</u>	<u>879,506</u>
PROPERTY AND EQUIPMENT:		
Land	111,100	111,100
Building	678,467	571,555
Office equipment and furniture	17,611	14,316
Vehicles	51,606	43,211
	<u>858,784</u>	<u>740,182</u>
Less accumulated depreciation	<u>(130,362)</u>	<u>(88,073)</u>
	<u>728,422</u>	<u>652,109</u>
OTHER ASSETS -		
Mortgage receivables - noncurrent (net of unamortized discount of \$1,875,340 and \$1,741,697)	<u>1,393,962</u>	<u>1,366,311</u>
TOTAL ASSETS	<u><u>\$ 3,196,039</u></u>	<u><u>\$ 2,897,926</u></u>

See accompanying notes to financial statements.

LIABILITIES AND NET ASSETS

	<u>2007</u>	<u>2006</u>
CURRENT LIABILITIES:		
Notes payable to VHDA	\$ 36,479	\$ 35,402
Notes payable to affiliate	12,500	13,511
Accounts payable	30,973	9,053
Payroll withholdings	68	145
Other	2,719	184
Deposits, net	<u>3,391</u>	<u>11,714</u>
Total current liabilities	<u>86,130</u>	<u>70,009</u>
LONG TERM DEBT:		
Note payable to VHDA	500,360	536,896
Note payable to affiliate	<u>4,956</u>	<u>17,457</u>
Total liabilities	<u>591,446</u>	<u>624,362</u>
NET ASSETS:		
Unrestricted	2,585,736	2,273,564
Temporarily restricted	<u>18,857</u>	<u>-</u>
Total net assets	<u>2,604,593</u>	<u>2,273,564</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 3,196,039</u></u>	<u><u>\$ 2,897,926</u></u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF ACTIVITIES

YEARS ENDED JUNE 30, 2007 and 2006

	2007	2006
CHANGES IN UNRESTRICTED NET ASSETS		
Support and Revenue:		
Contributions	\$ 474,597	\$ 670,149
Contributed land and buildings	24,800	-
Grants	62,819	39,333
Contributed materials and services	8,560	6,176
Sale of land and houses, (net of discount on mortgages of \$253,674 and \$229,251)	414,652	361,424
Interest	8,850	1,640
Late fees and miscellaneous	6,142	1,587
Mortgage discount amortization	116,495	107,580
Habitat Store receipts	704,613	500,502
Total unrestricted support and revenue	1,821,528	1,688,391
EXPENSES:		
Program	1,280,043	1,296,686
Management and general	124,523	111,369
Fundraising and promotion	104,790	76,361
Total expenses	1,509,356	1,484,416
Increase in unrestricted net assets	312,172	203,975
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	18,857	-
Increase in temporarily restricted net assets	18,857	-
INCREASE IN NET ASSETS	331,029	203,975
NET ASSETS - BEGINNING OF YEAR	2,273,564	2,069,589
NET ASSETS - END OF YEAR	\$ 2,604,593	\$ 2,273,564

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
CASH FLOWS FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 331,029	\$ 203,975
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Assets received as non-cash contributions	(27,050)	-
Depreciation	42,289	38,410
Amortization of discount on mortgage receivables	(116,495)	(107,580)
Change in certain operating assets and liabilities:		
Restricted cash	(18,857)	-
Issuance of mortgages net of discount	(414,652)	(340,013)
Collections on mortgages receivable made	426,936	443,119
Construction in progress and vacant lots	96,369	(2,560)
Building supplies	(3,950)	3,063
Grant receivable	(54,150)	-
Subsidy receivable	(30,643)	-
Accounts payable	(36)	(4,421)
Accrued expense and other liabilities	(5,865)	6,197
Net cash provided by operating activities	<u>224,925</u>	<u>240,190</u>
CASH FLOW FROM INVESTING ACTIVITIES:		
Purchases of land, buildings and equipment	<u>(116,352)</u>	<u>(79,657)</u>
Net cash used by investing activities	<u>(116,352)</u>	<u>(79,657)</u>
CASH FLOWS FROM FINANCING ACTIVITIES:		
Payments on debt	(48,972)	(55,595)
Proceeds from issuance of debt	<u>-</u>	<u>103,440</u>
Net cash provided (used) by financing activities	<u>(48,972)</u>	<u>47,845</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF CASH FLOWS - (Continued)

YEARS ENDED JUNE 30, 2007 and 2006

	<u>2007</u>	<u>2006</u>
Increase (Decrease) in cash and cash equivalents	\$ 59,601	\$ 208,378
Cash and cash equivalents - Beginning of year	<u>249,922</u>	<u>41,544</u>
Cash and cash equivalents - End of year	<u>\$ 309,523</u>	<u>\$ 249,922</u>
 Supplemental disclosure of cash flow information:		
Cash paid for interest	\$ 16,684	\$ 17,694
 Schedule of non-cash investing and financing information:		
Sale of property through issuance of mortgage receivable	\$ 668,326	\$ 569,264

See accompanying notes to financial statements.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

YEARS ENDED JUNE 30, 2007 and 2006

	2007			Total
	Program	Management and General	Fundraising and Promotion	
EXPENSES:				
Cost of houses sold	\$ 668,150	\$ -	\$ -	\$ 668,150
Wages	150,384	72,489	52,114	274,987
Payroll taxes	12,353	4,971	3,705	21,029
Other employee benefits	16,100	6,479	4,829	27,408
Office supplies	4,718	4,718	4,718	14,154
Office utilities and maintenance	4,007	4,005	4,005	12,017
Depreciation	29,325	8,146	3,258	40,729
Insurance	9,239	803	-	10,042
Building lot expenses	5,966	-	-	5,966
Vehicle expenses	7,903	-	-	7,903
Accounting fees	3,000	2,400	600	6,000
Legal fees	3,078	-	-	3,078
Meetings and conferences	1,125	1,124	1,124	3,373
Printing and publications	2,033	2,033	6,098	10,164
Postage	516	776	1,293	2,585
Telephone	1,714	1,714	1,714	5,142
Tithe	21,000	-	-	21,000
Miscellaneous	9,304	9,304	15,771	34,379
Interest	5,562	5,561	5,561	16,684
Habitat Store	324,566	-	-	324,566
Total expenses	<u>\$1,280,043</u>	<u>\$ 124,523</u>	<u>\$ 104,790</u>	<u>\$1,509,356</u>

See accompanying notes to financial statements.

2006

<u>Program</u>	<u>Management and General</u>	<u>Fundraising and Promotion</u>	<u>Total</u>
\$ 763,880	\$ -	\$ -	\$ 763,880
127,794	51,431	38,334	217,559
9,941	4,001	2,982	16,924
16,651	6,701	4,995	28,347
3,834	3,833	3,833	11,500
3,118	3,117	3,117	9,352
25,775	7,160	2,856	35,791
11,144	969	-	12,113
2,227	-	-	2,227
5,238	-	-	5,238
2,875	2,300	575	5,750
6,465	-	-	6,465
1,283	1,283	1,283	3,849
1,410	1,410	4,229	7,049
546	819	1,365	2,730
1,698	1,698	1,698	5,094
24,579	-	-	24,579
20,749	20,749	5,197	46,695
5,899	5,898	5,897	17,694
<u>261,580</u>	<u>-</u>	<u>-</u>	<u>261,580</u>
<u>\$ 1,296,686</u>	<u>\$ 111,369</u>	<u>\$ 76,361</u>	<u>\$1,484,416</u>

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS

1. CREATION AND PURPOSE OF ORGANIZATION:

Habitat for Humanity in the Roanoke Valley, Inc. (the Organization) was formed as a non-profit Christian housing ministry for the specific purpose of enabling low income families to obtain modest and decent housing in the Roanoke Valley. To that end, houses are built keeping costs as low as possible by using volunteer labor and donated land and materials whenever possible. Completed homes are then generally sold at cost plus a value for donated professional services, skilled labor and materials to selected families. A small down payment is required, and the organization finances the remainder of the sale price with non-interest bearing loans to be repaid over a 15-25 year period. Loan repayments are reinvested in other home building projects. The Organization retains a first lien on the properties sold.

Habitat also operates a store where donated new construction and home renovation products are sold to the public at deeply discounted prices. All proceeds from the store are directed towards Habitat's affordable housing program.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with U.S. generally accepted accounting principles. Net assets and revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of the Organization and changes therein are classified and reported as follows:

Unrestricted - All resources over which the governing board has discretionary control. The governing board of the Organization may elect to designate such resources for specific purposes. This designation may be removed at the board's discretion.

Temporarily Restricted - Resources accumulated through donations or grants for specific operating or capital purposes. Such resources will become unrestricted when the requirements of the donor or grantee have been satisfied through expenditure for the specified purpose or program or through the passage of time.

Permanently Restricted - Endowment resources accumulated through donations or grants that are subject to the restriction in perpetuity that the principal be invested. Investment income may be either an unrestricted or temporarily restricted resource when earned, determined according to the gift instruments.

The Organization has \$18,857 in temporarily restricted net assets at June 30, 2007 for building in Carroll County and \$-0- at June 30, 2006.

The Organization has no permanently restricted net assets as of June 30, 2007 and 2006.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

Use of Estimates - The preparation of financial statements 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 those estimates.

Significant estimates used in preparing these financial statements include those assumed in computing discounts on contributions receivable. It is at least reasonably possible that the significant estimate will change within the next year.

Provision for Income Taxes - The Organization is exempt from federal income tax under the provisions of Section 501(c)(3) of the Internal Revenue Code. Accordingly, no income tax provision has been recorded.

Mortgage Receivables - Because the mortgages provide for no interest, the balance sheet amounts for mortgage receivables have been discounted using an imputed rate of interest determined as of the origination date. Such discounts are amortized over the term of the related mortgage.

The Organization uses the direct writeoff method in providing for bad debts. Receivables are stated at the amount management expects to collect from balances at year end. Management estimates that no material losses will be sustained relating to the collectibility of mortgages. As such, no allowance for loan losses or adjustment to the balance of mortgages receivable has been recorded, based on current facts and circumstances.

Construction in Progress - Construction in progress is valued at cost using the specific identification method.

Property and Equipment - Property and equipment is recorded at cost or, if donated, at estimated fair value at date of donation. Purchased assets, with a cost exceeding \$1,500 are generally capitalized. Depreciation is recorded using the straight-line method over the estimated useful lives of the assets. Depreciation expense amounted to \$42,289 in 2007 and \$38,410 in 2006.

Donated Materials and Land - If significant in amount, donated materials are recorded at fair market value where objectively measurable. Donated land is recorded at locality assessed value for property tax purposes which approximates fair market value.

Donated Services - The Organization receives significant amounts of volunteer labor in building its houses. However, the Organization does not record the value of these services since it is not objectively measurable.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued):

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

Cash Equivalents - For the purposes of the statement of cash flows, the Organization considers all highly liquid investments with an initial maturity of three months or less to be cash equivalents.

Restricted Cash - The Organization holds \$18,857 in a separate bank account restricted for building only in Carroll County.

3. GAAP DEPARTURE:

The Organization does not record donations of items to the Store. The Organization is following Habitat for Humanity International policies and procedures. However, amounts material to the financial statements may exist as of June 30, 2007 and 2006.

4. CASH AND CASH EQUIVALENTS:

The Organization maintains its checking accounts with a financial institution that insures cash balances up to \$100,000 through the Federal Deposit Insurance Corporation.

5. MORTGAGE DISCOUNT AMORTIZATION:

Habitat for Humanity gives interest free mortgages to its buyers. For the purpose of the statements, Habitat for Humanity uses the discount rate from Habitat International to estimate its annual mortgage discount amortization. The amortization income was \$116,495 and \$107,580 for the years 2007 and 2006, respectively.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

6. NOTES PAYABLE:

The Organization's long-term debt consists of the following:

	2007	2006
Notes payable to Habitat for Humanity International, payable in monthly installments of \$1,126 at zero percent interest.	\$ 17,456	\$ 30,968
Notes payable to Virginia Housing Development Authority payable in monthly installments of \$8,954 including interest at 3%, secured by mortgages receivable	536,839	572,298
Total	554,295	603,266
Less current maturities	48,979	48,913
Long-term portion	\$ 505,316	\$ 554,353

Future scheduled maturities of long-term debt are as follows:

Years ended June 30,	
2008	\$ 48,979
2009	42,606
2010	38,795
2011	39,209
2012	41,191
Thereafter	343,515
	\$ 554,295

As of June 30, 2007, Habitat for Humanity has two revolving line of credit agreements totaling \$175,000 with two area banks. The notes are due in accordance with the terms of the line of credit agreements and interest is charged at LIBOR plus 1.0%. There were outstanding borrowings on the lines of credit at June 30, 2007 and 2006 of \$-0- and \$-0-, respectively.

7. TITHE CONTRIBUTIONS:

Habitat for Humanity is a global partnership. In recognition of this partnership, the Organization is expected to contribute 10% of actual contributions not designated for local work to Habitat for Humanity International, Inc., the central organization with which they are affiliated. These funds are to be used to further housing in undeveloped countries. Total tithe contributions paid were \$21,000 and \$24,579 for the year ended June 30, 2007 and 2006.

HABITAT FOR HUMANITY IN THE ROANOKE VALLEY, INC.

NOTES TO FINANCIAL STATEMENTS - (Continued)

8. GRANT REVENUES:

For the years ended June 30, the Organization received grant monies as follows:

	<u>2007</u>	<u>2006</u>
Shop grants from Habitat for Humanity International	\$ -	\$ 18,565
Capacity building grants from Habitat for Humanity International	969	20,768
State of Virginia Enterprise Zone Real Property Investment Grant	54,150	
Other	<u>7,700</u>	<u>-</u>
	<u>\$ 62,819</u>	<u>\$ 39,333</u>

9. CARROLL COUNTY CHAPTER:

In the fiscal year ended June 30, 2007 efforts were made to create a separate Carroll County Chapter to raise money and build houses in Carroll County. However, the efforts did not materialize and the money raised will be used by Habitat for Humanity to build houses in Carroll County. At June 30, 2007, \$18,857 was restricted for this purpose.

