

**HABITAT FOR HUMANITY OF
PALM BEACH COUNTY, INC.
(A Nonprofit Organization)**

**FINANCIAL STATEMENTS
Twelve Months Ended June 30, 2006 and 2005**

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.

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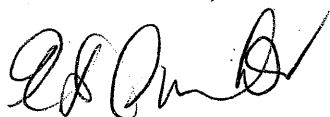
Independent Auditor's Report

To the Board of Trustees of
Habitat For Humanity of Palm Beach County, Inc.

We have audited the accompanying statement of financial position of Habitat For Humanity of Palm Beach County, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the twelve months ended June 30, 2006 and 2005. 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 the audits in accordance with generally accepted auditing standards. 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat For Humanity of Palm Beach County, Inc. as of June 30, 2006, and June 30, 2005, and the changes in its net assets and its cash flows for the twelve months ended June 30, 2006 and 2005, in conformity with generally accepted accounting principles.



EVELYN F. PARKES, CPA, P.A.
West Palm Beach, Florida

January 16, 2007

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
STATEMENT OF FINANCIAL POSITION
TWELVE MONTHS ENDED JUNE 30, 2006 AND 2005

ASSETS

	<u>2006</u>	<u>2005</u>
Cash and cash equivalents	\$ 342,278	\$ 309,365
Unconditional promises to give	25,000	80,000
Mortgage notes receivable, net of unamortized discount	1,037,803	469,847
Prepaid expenses	13,919	-
Other receivables	17,271	26,789
Construction in process	1,079,609	378,762
Inventory - land	187,697	147,118
Property and equipment, net	595,769	562
Undeveloped lots	10,200	10,200
Deposits	<u>20,782</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 3,330,328</u>	<u>\$ 1,422,643</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
STATEMENT OF FINANCIAL POSITION
TWELVE MONTHS ENDED JUNE 30, 2006 AND 2005

LIABILITIES AND NET ASSETS

	2006	2005
Liabilities:		
Accounts payable	\$ 98,113	\$ -
Payroll taxes payable	16,402	-
Notes payable	364,506	-
Deposits payable	14,700	2,950
Other current liabilities	(3,926)	-
Total liabilities	489,795	2,950
Net Assets:		
Unrestricted net assets	2,840,533	1,337,993
Temporarily restricted by donors	-	81,700
Total net assets	2,840,533	1,419,693
TOTAL LIABILITIES AND NET ASSETS	\$ 3,330,328	\$ 1,422,643

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
TWELVE MONTHS ENDED JUNE 30, 2006 AND 2005

UNRESTRICTED NET ASSETS

	2006	2005
Support:		
Businesses and foundations	\$ 720,583	\$ 396,096
Individuals	207,661	39,646
Churches	11,225	7,934
Affiliate and other	112,143	5,272
Sales of donated merchandise, net of cost of sales of \$312,186 and \$0, respectively	(20,820)	-
In-kind contributions	943,110	-
Total support	1,973,902	448,948
Revenue:		
Interest income	4,266	3,461
Program service revenue:		
Homes sold	145,000	190,000
Mortgage discount	(152,247)	(103,194)
Discount amortization	100,342	32,524
Sale of mortgages	-	76,892
Sale of land	60,000	18,000
Rental and other	50,148	29,219
Total revenue	207,509	246,902
Satisfaction of program restrictions	81,700	28,300
Total support and revenue	2,263,111	724,150
 EXPENSES		
Program services	526,429	318,099
Management and general	229,005	161,372
Fund raising	5,137	6,035
Total expenses	760,571	485,506
 (DECREASE) INCREASE IN UNRESTRICTED NET ASSETS	 \$ 1,502,540	 \$ 238,644

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
TWELVE MONTHS ENDED JUNE 30, 2006 AND 2005

TEMPORARILY RESTRICTED NET ASSETS

	<u>2006</u>	<u>2005</u>
Contribution:		
Grants and foundations	\$ -	\$ 110,000
Churches and individuals		-
Net assets released from donor restrictions	(81,700)	(28,300)
INCREASE (DECREASE) IN TEMPORARILY RESTRICTED NET ASSETS	<u>\$ (81,700)</u>	<u>\$ 81,700</u>
 TOTAL INCREASE IN NET ASSETS	 <u>\$ 1,420,840</u>	 <u>\$ 320,344</u>
NET ASSETS AT BEGINNING OF YEAR	<u>1,419,693</u>	<u>1,099,349</u>
NET ASSETS AT END OF YEAR	<u>\$ 2,840,533</u>	<u>\$ 1,419,693</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
STATEMENT OF FUNCTIONAL EXPENSES
TWELVE MONTHS ENDED JUNE 30, 2006 AND 2005

	2006				2005			
	Program Services	Management & General	Fund Raising	Total	Program Services	Management & General	Fund Raising	Total
Salaries & contractors	\$ 164,427	\$ 95,002	\$ -	\$ 259,429	\$ 43,312	\$ 71,649	\$ -	\$ 114,961
Payroll taxes	14,467	8,990	-	23,457	-	5,481	-	5,481
Subtotal	178,894	103,992	-	282,886	43,312	77,130	-	120,442
Home construction costs	190,507	-	-	190,507	193,507	-	-	193,507
Cost of land sold	16,993	-	-	16,993	14,995	-	-	14,995
Mortgages sold	-	-	-	-	26,114	-	-	26,114
Professional fees	2,120	42,217	-	44,337	4,537	16,566	-	21,103
Insurance expense	14,115	7,045	-	21,160	-	8,726	-	8,726
Interest	434	10,259	-	10,693	-	1,710	-	1,710
Repairs and maintenance	10,639	2,764	-	13,403	4,970	-	-	4,970
Office rent	-	16,800	-	16,800	-	22,423	-	22,423
Utilities	2,048	10,576	-	12,624	-	2,840	-	2,840
Casual labor	17,953	-	-	17,953	1,737	-	-	1,737
Office expense	3,162	11,377	-	14,539	-	18,155	-	18,155
Promotional	33,954	1,742	-	35,696	3,455	-	-	3,455
Miscellaneous	1,996	623	-	2,619	2,250	3,145	-	5,395
Licenses and tools	6,930	396	-	7,326	3,657	-	-	3,657
Tithe & contributions	16,800	3,805	-	20,605	6,000	-	-	6,000
Truck expense	-	-	-	-	2,225	-	-	2,225
Property tax expense	25,772	-	-	25,772	15,370	-	-	15,370
Fund raising fee	-	-	5,137	5,137	-	-	6,035	6,035
Travel	5,556	3,356	-	8,912	-	6,690	-	6,690
Volunteer/education expense	(1,444)	275	-	(1,169)	(4,030)	-	-	(4,030)
Subtotal	347,535	111,235	5,137	463,907	274,787	80,255	6,035	361,077
Total expenses before depreciation	526,429	215,227	5,137	746,793	318,099	157,385	6,035	481,519
Depreciation expense	-	13,778	-	13,778	-	3,987	-	3,987
TOTAL EXPENSES	<u>\$526,429</u>	<u>\$229,005</u>	<u>\$ 5,137</u>	<u>\$ 760,571</u>	<u>318,099</u>	<u>\$ 161,372</u>	<u>\$ 6,035</u>	<u>\$ 485,506</u>

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
STATEMENT OF CASH FLOWS
TWELVE MONTHS ENDED JUNE 30, 2006 AND 2005

	2006	2005
Operating activities:		
Change in net assets	\$ 1,420,840	\$ 320,344
Adjustments to reconcile changes in net assets to net cash provided by operating activities:		
Depreciation	13,778	3,987
Non-cash contributions of assets	(943,110)	-
(Gain) on land sale	(43,007)	(3,005)
(Gain) on mortgage sales	-	(50,706)
Loss on sale of homes	45,507	16,571
(Increase) decrease in other receivables and other assets	(35,089)	(103,258)
Decrease (increase) in finished homes and construction in process	(497,828)	(98,722)
Increase (decrease) accounts payable and accrued expenses	<u>106,198</u>	<u>(3,149)</u>
Net cash (used) provided by operating activities	<u>67,289</u>	<u>82,062</u>
Investing activities:		
Proceeds from sale of land	60,000	18,000
Purchase of land, building and equipment	(96,300)	-
Sales of mortgages	-	76,892
Mortgage receivable	(42,116)	(185,141)
Mortgage receivable - unamortized discount	<u>58,962</u>	<u>103,184</u>
Total cash provided (used) in investing activities	<u>(19,454)</u>	<u>12,935</u>
Financing activities:		
Repayments on notes payable	<u>(14,922)</u>	<u>(100,000)</u>
Net cash used in financing activities	<u>(14,922)</u>	<u>(100,000)</u>
Increase (decrease) in cash	32,913	(5,003)
CASH AND CASH EQUIVALENT AT BEGINNING OF YEAR	<u>309,365</u>	<u>314,368</u>
CASH AND CASH EQUIVALENT AT END OF YEAR	<u>\$ 342,278</u>	<u>\$ 309,365</u>

Interest paid for year ended June 30, 2006, and June 30, 2005, is \$10,693 and \$1,710, respectively.

See accompanying notes to financial statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS

NOTE 1 - ORGANIZATION

Habitat for Humanity of Palm Beach County, Inc. was founded in October, 1986, as a nonprofit, ecumenical Christian housing ministry affiliated with Habitat for Humanity International, Inc., an organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, Habitat for Humanity builds simple decent houses with the help of low-income homeowners families. The organization focuses its efforts in areas of West Palm Beach and Jupiter, Florida.

The houses built by the Organization and its volunteers are sold to partner families at no profit, financed with affordable, no-interest loans. The homeowner's monthly mortgage payments go into a revolving fund that is used to build more houses. In addition to a down payment and the monthly mortgage payment, each homeowner family invests hundreds of hours of their own labor into the building of their house as well as the houses of others.

In July, 2005, Habitat for Humanity opened a resale store to sell its excess home-related supplies and material.

On December 31, 2005, Habitat for Humanity acquired an affiliate, Lighthouse Habitat of Humanity, for \$100 and assumed the operations of its thrift store. The excess of assets over liabilities received of \$1,208,909 has been recorded as "contribution from affiliate," of which \$921,610 has been included as in-kind contribution. See Note 5.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Organization are described below to enhance the usefulness of the financial statement to the reader.

Basis of Accounting - The financial statements of the Organization are prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Revenues from the sale of houses are recognized at the transfer to the homeowner. Construction costs are capitalized and carried as an asset until the property is completed and sold.

Basis of Presentation - The organization has adopted the provisions of Financial Accounting Standards Board (FASB), Statement of Financial Accounting Standards No. 117 pertaining to Financial Statements of Not-for-Profit Organizations and the Statement of Financial Accounting Standards No. 116 pertaining to Accounting for Contributions Received and Contributions Made.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Under these provisions, net assets and all balances and transactions are presented based on the existence or absence of donor-imposed restrictions. Accordingly, the net assets of the Organization and changes therein are classified and reported as follows:

- *Unrestricted net assets* - Net assets not subject to donor-imposed stipulations.
- *Temporarily restricted net assets* - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time.
- *Permanently restricted net assets* - Net assets subject to donor-imposed stipulations that will be permanently restricted. The Organization does have permanently restricted net assets at June 30, 2005.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increased or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulations or by law. 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 net assets released from restrictions.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities, the 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.

Contributions - Contributions are recognized as revenues in the period the commitment is received. Conditional promises to give are not recognized until they become unconditional, that is when the conditions on which they depend are substantially met. Contributions of assets other than cash are recorded at their estimated fair value.

Contributions of Long-Lived Assets - Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash Equivalents - For purposes of the financial statements, the Organization considers all liquid investments having initial maturities of three months or less to be cash equivalents. At June 30, 2006 and 2005, cash equivalents includes U.S. Treasury Money Market Funds of \$134,952 and \$176,654, respectively.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(continued)*

Concentration of Risks - At June 30, 2006 and 2005, the cash and cash equivalent balances exceeded the FDIC insurance limitation by \$235,000 and \$209,365, respectively.

Land, Finished Homes, Construction in Progress, and Depreciation - Land for construction, finished homes and construction in progress are carried at cost or at market value when acquired by gift. No depreciation is charged against these assets as they are being held for resale. Construction equipment is carried at cost or at market value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which are generally three to five years.

Investments - Investments are carried at market value. Net appreciation in the fair value of investments, if any, is reported in the statement of activities. Interest income is accrued as earned.

Revenue Recognition - All contributions and grants are considered available for unrestricted use unless specifically restricted by the donor. Service revenues are recognized, if performed by a professional, at the time services are provided and the revenues are earned. Thrift store sales of donated merchandise are recorded when sold and are reported net of the cost to operate the thrift store.

Operations - Results from operations in the statement of activities reflects all transactions increasing or decreasing unrestricted net assets except those items of a capital nature associated with long-term investment or physically facilities.

Income Taxes - The Organization is exempt from federal tax under Section 501(c) (3) of the Internal Revenue Code and the comparable state law.

Advertising - The Organization expenses advertising and promotional costs as they are incurred. Advertising and promotion expenses for the years ended June 30, 2006, are \$35,696, and June 30, 2005, are \$3,455.

NOTE 3 - TEMPORARILY-RESTRICTED NET ASSETS

Temporarily-restricted net assets were available for the "Westgate Village Project," which consisted of fourteen (14) homes to be built in West Palm Beach. These temporarily-restricted net assets were all released from donor restrictions at the end of the year.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS

NOTE 4 - UNCONDITIONAL PLEDGES

The Organization recognizes revenue for unconditional pledges. At June 30, 2006, the unconditional pledges totaled \$25,000. These are expected to be collected within the next year.

NOTE 5 - DONATIONS OF ASSETS, MATERIALS AND SERVICES

The following schedule summarizes the contribution of assets. Donated assets are valued at the estimated fair-market value at the date of receipt. Of the donated assets received, \$921,610 were from an affiliate. Donated services are recognized as revenue only if the service is provided by professionals. Volunteers have also donated significant amounts of time in building the houses; however, such services have not been recognized as revenue.

	2006	2005
Mortgage receivable - net	\$ 577,124	\$ -
Inventory - land	146,052	-
Property and equipment	512,685	-
Construction in process	97,546	-
Other assets	5,272	-
Escrows and liabilities accrued	(395,569)	-
Total	\$ 943,110	\$ -

NOTE 6 - MORTGAGE NOTE RECEIVABLE

When the Organization sells a home, it accepts two installment notes in return. The first is an interest-free monthly installment note generally issued for a term of 15-25 years with principal payments due monthly.

The second note is a second trust deed. It is interest-free and for a similar term of years as the first note. It is issued to ensure that the homeowner will not transfer, sell or assign their title of interest in the property, or cease to occupy the property. The second note is forgiven upon repayment of the first note. The second note and its resulting contingent gain is not recorded on either the Statement of Financial Position or the Statement of Activities. An estimate of the gain on the second trust deed cannot be made. It is unlikely that any gain will be realized.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS

NOTE 6 - MORTGAGE NOTE RECEIVABLE *(continued)*

The mortgage notes receivable are recorded at the face amount less the unamortized discount. The discount rate for June 30, 2006 and 2005, is 8.00%. The mortgages are well below actual property value, therefore, the exposure to losses appears to be low and no allowance for doubtful accounts was considered necessary.

The outstanding balance is as follows:

	2006	2005
Mortgage notes	\$ 2,111,461	\$ 895,984
Unamortized discount	<u>(1,073,658)</u>	<u>(426,137)</u>
Total	<u>\$ 1,037,803</u>	<u>\$ 469,847</u>

The amortization of the discount is included in program-service revenue in the financial statements. Mortgage notes include an in-kind contribution of receivables from an affiliate totaling \$577,124, net of unamortized discount.

NOTE 7 - CONSTRUCTION IN PROCESS

Construction in process represents the accumulated cost of houses under construction as follows:

	2006	2005
Houses under construction	<u>\$ 1,079,609</u>	<u>\$ 378,762</u>

At June 30, 2006, and June 30, 2005, houses under construction consisted of the direct material and labor cost incurred on fifteen (15) and twelve (12) homes, respectively. Upon completion of construction, the houses will be sold. Construction in process includes \$97,546 of in-kind contributions from affiliate.

NOTE 8 - INVENTORY - LAND

Land inventory includes purchased and donated parcels of land to be used for future construction of homes. During the current year, inventory was increased by \$146,052 of in-kind contributions from affiliate. Land inventory is reduced when parcels are sold or when construction begins and the parcels are transferred to construction in process.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS

NOTE 9 - PROPERTY & EQUIPMENT

Property and equipment used in operations consist of the following:

	2006	2005
Land	\$ 75,000	\$ -
Building	456,360	-
Equipment and fixtures	108,000	32,362
Less accumulated depreciation	(43,591)	(31,800)
Total equipment used in operations	\$ 595,769	\$ 562

Depreciation expense for the year ended June 30, 2006, and June 30, 2005, totaled \$13,778 and \$3,987, respectively. Property and equipment includes in-kind contribution from affiliate totaling \$491,183, and other in-kind equipment contributions totaling \$21,500.

NOTE 10 - UNDEVELOPED LOTS

The Organization records donations of land at the estimated fair market value. Various donors have donated land, some of which is not currently usable by the Organization. The land which is not currently usable is classified as "Undeveloped Lots."

NOTE 11 - NOTES PAYABLE

The Organization assumed three (3) notes in connection with the in-kind transfer of assets from affiliate.

	2006	2005
Note payable to Ford Motor Credit secured by a vehicle. It provides for monthly payments of \$325 with an interest rate of 7.50% and matures in September, 2008	\$ 8,008	\$ -
Note payable to GMAC secured by a vehicle. It provides for monthly payments of \$492, with an interest rate of 8.00%, and matures in March, 2010.	18,378	-
Mortgage Payable to Colonial Bank secured by real property. It provides for monthly payments of \$3,729 with an interest rate of 8.46% and matures in April, 2012.	338,120	-
	\$ 364,506	\$ -

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
(A Nonprofit Organization)
NOTES TO FINANCIAL STATEMENTS

NOTE 12 - OPERATING LEASE COMMITMENTS

On March 4, 2006, Habitat Restore, Inc. (An affiliate created by Habitat for Humanity) entered into a five-year non-cancelable operating lease for its thrift store facility requiring rent of \$132,561 annually. Thrift store rent expense for 2006 was \$65,538.

NOTE 13 - INCOME TAXES

Habitat for Humanity of Palm Beach County, Inc. is exempt from income tax under Section 501(c)(3) of the Internal Revenue Code.

NOTE 14 - RELATED PARTY TRANSACTIONS

The Organization leases its offices on a month-to-month basis from a relative of a member of the Board of Directors. Rent paid during the twelve (12) months ended June 30, 2006 and 2005, includes related party payments of \$16,800 and \$16,800, respectively. Rent payments are equivalent to those that prevail in arm's-length transactions. The organization also subleases its thrift store facilities from its affiliate, Habitat Restore, Inc., utilizing the same terms of the lessee. See Note 12.

The Organization pays an employee's corporation for services provided to install cabinetry in Habitat homes. Total payments to the employee's corporation from hire date of the employee to the end of the fiscal year totaled \$22,605.