

**HABITAT FOR HUMANITY OF
PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED FINANCIAL STATEMENTS**

June 30, 2008

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PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED FINANCIAL STATEMENTS

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TABLE OF CONTENTS

	<u>PAGES</u>
Independent Auditors' Report	1
Combined Statement of Financial Position	2
Combined Statement of Activities	3
Combined Statement of Functional Expenses	4
Combined Statement of Cash Flows	5
Notes to Combined Financial Statements	6-11



KEEFE, McCULLOUGH & CO., LLP
CERTIFIED PUBLIC ACCOUNTANTS

JOHN R. KEEFE, C.P.A.
STEVEN H. WOODS, C.P.A.
DAVID T. WILLIAMS, C.P.A.
JOSEPH D. LEO, C.P.A.
WILLIAM G. BENSON, C.P.A.
KENNETH G. SMITH, C.P.A.

LOUIS R. PROIETTO, C.P.A.
CYNTHIA L. CALVERT, C.P.A.
JOHN E. McCULLOUGH, C.P.A. (RETIRED)
THOMAS T. CARPENTER, C.P.A. (RETIRED)
PAUL B. SNEIDER, C.P.A. (RETIRED)
BRIAN D. PINNELL, C.P.A. (RETIRED)

ISRAEL J. GÓMEZ, C.P.A.
CHARLES K. RUMPF, C.P.A.
JAMES R. LARAWAY, C.P.A.

ROSS S. GOTTHOFFER, C.P.A.
HILLARY B. DAIGLE, C.P.A.

6550 NORTH FEDERAL HIGHWAY
SUITE 410
FORT LAUDERDALE, FLORIDA 33308
(954) 771-0896
FAX: (954) 938-9353
E-MAIL: kmc@kmc CPA.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Palm Beach County, Inc.
and Habitat Restore, Inc.
West Palm Beach, Florida

We have audited the accompanying combined statement of financial position of Habitat for Humanity of Palm Beach County, Inc. (the "Organization") and Habitat Restore, Inc. (the "Restore") (both not-for-profit organizations) as of June 30, 2008, and the related combined statements of activities, functional expenses and cash flows for the year then ended. These combined financial statements are the responsibility of the Organization's and Restore's respective managements. Our responsibility is to express an opinion on these combined financial statements based on our audit.

We conducted our audit 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Habitat for Humanity of Palm Beach County, Inc. and Habitat Restore, Inc. as of June 30, 2008, and the combined changes in their net assets and combined cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Keefe, McCullough & Co., LLP

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
November 18, 2008

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENT OF FINANCIAL POSITION
June 30, 2008

A S S E T S

ASSETS:	
Cash and cash equivalents	\$ 1,370,128
Unconditional promises to give	271,156
Mortgage notes receivable, net of unamortized discount of \$ 2,065,176	1,599,663
Other receivables	1,720
Prepays and other assets	42,907
Construction in progress	403,121
Inventory, land	263,397
Investments	200,000
Property and equipment, net	<u>555,028</u>
Total assets	<u>\$ 4,707,120</u>

L I A B I L I T I E S A N D N E T A S S E T S

LIABILITIES:	
Accounts payable	\$ 33,592
Accrued expenses	29,554
Escrow deposits	111,734
Debt	<u>1,629,706</u>
Total liabilities	<u>1,804,586</u>

COMMITMENTS (Note 9) --

NET ASSETS:	
Unrestricted	2,393,234
Temporarily restricted	<u>509,300</u>
Total net assets	<u>2,902,534</u>
Total liabilities and net assets	<u>\$ 4,707,120</u>

The accompanying notes to combined financial statements are an integral part of these statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2008

UNRESTRICTED NET ASSETS:

Support:	
Sale of donated merchandise	\$ 620,182
Contributions	372,462
In-kind contributions	199,919
Governmental grants	175,615
Special events	<u>36,774</u>
Total support	<u>1,404,952</u>

Revenue:	
Program service revenue:	
Homes sold, net of mortgage discounts of \$ 475,398	617,664
Discount amortization	107,856
Other	28,183
Interest income	<u>14,629</u>
Total revenue	<u>768,332</u>

Satisfaction of program restrictions releasing temporarily restricted net assets 447,561

Total support, revenue and release of temporarily restricted net assets 2,620,845

Expenses:

Program services	1,631,070
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Supporting services:	
Restore	415,950
Management and general	211,495
Thrift store	155,221
Fundraising	<u>92,121</u>

Total supporting services 874,787

Total expenses 2,505,857

Change in unrestricted net assets 114,988

TEMPORARILY RESTRICTED NET ASSETS:

Contributions	3,039,653
Write-down of donated land to realizable value (Note 6)	(2,199,000)
Net assets released from donor restrictions	<u>(447,561)</u>

Change in temporarily restricted net assets 393,092

Change in net assets 508,080

NET ASSETS, July 1, 2007 2,394,454

NET ASSETS, June 30, 2008 \$ 2,902,534

The accompanying notes to combined financial statements are an integral part of these statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2008

	Supporting Services				Total		
	Program Services	Restore	Management and General	Thrift Store	Fundraising	Supporting Services	Total
PERSONNEL COSTS:							
Salaries and contractors	\$ 254,590	\$ 141,168	\$ 138,731	\$ 65,192	\$ 67,231	\$ 412,322	\$ 666,912
Employee benefits and taxes	<u>28,103</u>	<u>13,146</u>	<u>16,824</u>	<u>5,565</u>	<u>6,441</u>	<u>41,976</u>	<u>70,079</u>
Subtotal	<u>282,693</u>	<u>154,314</u>	<u>155,555</u>	<u>70,757</u>	<u>73,672</u>	<u>454,298</u>	<u>736,991</u>
OTHER EXPENSES:							
Home construction costs	997,338	--	--	--	--	--	997,338
Rent	10,937	195,816	10,820	--	--	206,636	217,573
Professional fees	168,607	--	23,155	--	--	23,155	192,762
Office expense	21,518	11,611	5,663	3,766	3,580	24,620	46,138
Interest	15,952	39	--	26,488	--	26,527	42,479
Repairs and maintenance	23,542	8,239	2,823	3,076	--	14,138	37,680
Insurance expense	22,288	5,187	808	7,312	--	13,307	35,595
Volunteer/education expense	29,625	1,947	1,177	833	--	3,957	33,582
Utilities	1,137	14,872	2,999	8,852	--	26,723	27,860
Promotional	13,108	6,688	--	4,254	--	10,942	24,050
Travel	12,210	7,823	1,320	1,620	--	10,763	22,973
Tithe and contribution	16,800	--	--	--	--	--	16,800
Telephone	5,457	3,183	3,499	3,714	--	10,396	15,853
Special events	--	--	--	--	14,869	14,869	14,869
Taxes and licenses	2,924	187	66	856	--	1,109	4,033
Miscellaneous	300	1,227	1,409	522	--	3,158	3,458
Casual labor	--	75	--	1,800	--	1,875	1,875
Subtotal	<u>1,341,743</u>	<u>256,894</u>	<u>53,739</u>	<u>63,093</u>	<u>18,449</u>	<u>392,175</u>	<u>1,733,918</u>
Total expenses before provision for depreciation	1,624,436	411,208	209,294	133,850	92,121	846,473	2,470,909
Provision for depreciation	<u>6,634</u>	<u>4,742</u>	<u>2,201</u>	<u>21,371</u>	<u>--</u>	<u>28,314</u>	<u>34,948</u>
Total expenses	<u>\$ 1,631,070</u>	<u>\$ 415,950</u>	<u>\$ 211,495</u>	<u>\$ 155,221</u>	<u>\$ 92,121</u>	<u>\$ 874,787</u>	<u>\$ 2,505,857</u>

The accompanying notes to combined financial statements are an integral part of these statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENT OF CASH FLOWS
For the Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	
Change in net assets	\$ 508,080
Adjustments to reconcile change in net assets to net cash provided by operating activities:	
Provision for depreciation	34,948
Provision for amortization	366,461
Loss on disposition of property and equipment	1,500
Inventory and construction in process conveyed in exchange for mortgage receivables	(765,000)
Changes in assets and liabilities:	
(Increase) decrease in grants receivable	75,000
(Increase) decrease in unconditional promises to give	(221,656)
(Increase) decrease in other receivables	59
(Increase) decrease in prepaids and other assets	2,183
(Increase) decrease in inventory	(109,500)
(Increase) decrease in construction in progress	3,703
Increase (decrease) in accounts payable	(17,325)
Increase (decrease) in accrued expenses	(3,191)
Increase (decrease) in escrow deposits	47,109
Increase (decrease) in deferred revenues	<u>(82,000)</u>
Net cash used in operating activities	<u>(159,629)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:	
Purchases of property and equipment	(7,631)
Purchase of investments	(200,000)
Payments received on mortgage receivables	<u>161,087</u>
Net cash used in investing activities	<u>(46,544)</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:	
Proceeds from debt	1,323,828
Repayments on debt	<u>(42,989)</u>
Net cash provided by financing activities	<u>1,280,839</u>
Net increase in cash and cash equivalents	1,074,666
CASH AND CASH EQUIVALENTS, beginning of the year	<u>295,462</u>
CASH AND CASH EQUIVALENTS, end of the year	\$ <u><u>1,370,128</u></u>

The accompanying notes to combined financial statements are an integral part of these statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 1 - ORGANIZATION AND OPERATIONS

Habitat for Humanity of Palm Beach County, Inc. (the "Organization") 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, the Organization builds simple decent houses with the help of low-income homeowner families. The Organization focuses its efforts in areas of West Palm Beach and Jupiter, Florida. Habitat Restore, Inc. (the "Restore") is a not-for-profit tax exempt organization which holds the lease agreement for the building currently occupied by the Restore and the Organization's office (Note 9).

The accompanying combined financial statements include the accounts of the Organization and the Restore. They are presented on a combined basis as the two organizations share the same management team, contain common board members and are financially interrelated. All balances and transactions are eliminated on a combined basis.

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.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Basis of accounting:

The combined financial statements 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.

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. The Organization had temporarily restricted net assets of \$ 509,300 at June 30, 2008 (Note 11).

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will be permanently restricted. The Organization has no permanently restricted net assets at June 30, 2008.

Use of estimates:

The presentation of the combined 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 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.

Reclassifications:

Certain accounts in the prior year financial statements have been reclassified to conform with the presentation in the current year financial statements.

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 combined financial statements, the Organization considers all liquid investments having initial maturities of three (3) months or less to be cash equivalents. The Organization maintains cash balances at one financial institution which exceed Federally insured amounts.

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. Donated land is written down to realizable value. 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.

Maintenance and repairs to property and equipment are charged to expense when incurred. Additions and major renewals are capitalized.

Restricted and unrestricted revenue and support:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donated goods to the thrift stores are recorded when sold.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restriction.

Promises to give:

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Uncollectible promises to give are expected to be insignificant based on historical experience and management believes no allowance for uncollectible promises to give is considered necessary. As of June 30, 2008, the Organization had \$ 271,156, in unconditional promises to give and no conditional promises to give.

Functional expenses:

Program and supporting services are charged with their direct expenses. Other expenses are allocated based on their proportionate share of total expenses.

NOTE 3 - DONATIONS OF ASSETS, MATERIALS AND SERVICES

Donated assets are valued at the estimated fair-market value at the date of receipt. Donated services are recognized as revenue only if the service requires specific expertise and 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. During the year ended June 30, 2008, the Organization recorded \$ 174,802 in donated professional services and \$ 25,117 in donated materials.

NOTE 4 - MORTGAGE NOTES 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 to recover the costs of construction for a term of 15 to 30 years with principal payments due monthly.

The second note is a 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 to cease to occupy the property within a relatively short period of time. 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 statements of financial position or the statements of activities. An estimate of the gain on the second trust deed cannot be made. It is unlikely that any gain will be realized.

The mortgage notes receivable are recorded at the face amount less the unamortized discount. The discount rate for June 30, 2008 is 8%. 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.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
 AND HABITAT RESTORE, INC.
 NOTES TO COMBINED FINANCIAL STATEMENTS
 June 30, 2008

NOTE 4 - MORTGAGE NOTES RECEIVABLE (continued)

The outstanding balance is as follows:

Mortgage notes	\$	3,664,838
Unamortized discount		<u>(2,065,175)</u>
Total	\$	<u>1,599,663</u>

The discount is amortized over its corresponding mortgage note term and is included in program service revenue in the financial statements.

NOTE 5 - CONSTRUCTION IN PROGRESS

Construction in progress of \$ 403,121 represents the accumulated cost of houses under construction and land improvements. At June 30, 2008, houses under construction consisted of the direct material and labor cost incurred on seven (7) homes. Upon completion of construction, the houses will be sold to prequalified families who have invested hours of their own labor into the construction of the houses.

NOTE 6 - LAND INVENTORY

Land inventory of \$ 253,197 includes purchased parcels of land to be used for future construction of homes. Land inventory is reduced when parcels are sold or when construction begins and the parcels are transferred to construction in progress.

Donated land is tracked by lot numbers but is written down to realizable value in the financial statements because the Organization does not include the value of the land in the purchase price for their clients in order to make housing affordable for low-income families. During the year ended June 30, 2008, Palm Beach County conveyed 27 lots to the Organization. The Organization must complete the construction of all improvements on the lots and shall convey the land associated with each improved lot to a county approved homeowner at no cost to such homeowner. If the Organization does not complete the construction of a single family detached dwelling on the lot, convey such dwelling, land and improvements to applicants approved by the county by July 2, 2010, then the Organization shall convey the lot back to the county or pay the county an amount equal to the current appraised value.

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment used in operations consists of the following:

Building	\$	456,360
Land		75,000
Vehicles		66,472
Equipment, furniture and fixtures		43,247
Leasehold improvements		23,553
Less accumulated depreciation		<u>(109,604)</u>
Total property and equipment used in operations	\$	<u>555,028</u>

Depreciation expense for the year ended June 30, 2008 totaled \$ 34,948.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 - DEBT

During the year, the Organization entered into an agreement which provided for the sale of certain mortgage receivables with full recourse to a bank. Proceeds received from the sale during the year totaled \$ 1,132,304, net of discount of \$ 125,722. The discount is amortized over the life of the mortgages. The agreement contained several provisions including a default clause, where the Organization will repurchase the principal amount of any defaulted mortgage at the same percentage discount (90%) used when the mortgage was originally sold to the bank.

Debt consists of the following:

Repurchase agreement payable to a bank. This agreement is payable monthly at \$ 4,934 through February 2011 and at lesser amounts thereafter through 2036 (net of unamortized discount of \$ 123,738).	\$ 1,114,642
Mortgage payable to a bank secured by real property. It provides for monthly payments of \$ 3,007 with a fixed interest rate of 7.10% and matures in May 2022.	314,262
Revolving line of credit to a bank secured by residential lots. It provides for monthly payments of interest only at the prime rate (5.0% at June 30, 2008) and matures in October 2010. The Organization has the availability of an additional \$ 328,067 under this line of credit as of June 30, 2008.	116,933
Revolving line of credit to a bank secured by residential lots. It provides for monthly payments of interest only at the prime rate but never less than 6.0% (6.0% at June 30, 2008) and matures in July 2010. The Organization has the availability of an additional \$ 952,498 under this line of credit as of June 30, 2008.	74,502
Note payable to a finance company secured by a vehicle. It provides for monthly payments of \$ 503 with a fixed interest rate of 8.00% and matures in March 2010.	8,793
Note payable to a finance company secured by a vehicle. It provides for monthly payments of \$ 325 with a fixed interest rate of 7.50% and matures in September 2008.	574
	<u> </u> \$ <u>1,629,706</u>

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 8 - DEBT (continued)

Future maturities of debt, including the unamortized discount on the repurchase agreement of \$ 123,694, are approximately as follows:

<u>Year ending June 30,</u>		
2009	\$	74,900
2010	\$	71,800
2011	\$	261,000
2012	\$	70,700
2013	\$	72,000
Thereafter	\$	1,203,000

NOTE 9 - OPERATING LEASE COMMITMENTS

Habitat Restore, Inc. (an affiliate created by the Organization) previously entered into a five-year non-cancelable operating lease for its thrift store facility and the Organization's office. The lease requires base rent of \$ 138,996 for the year ending June 30, 2008, with an annual increase of \$.50 per square foot. Rent expense, including CAM, for 2008 was \$ 217,574.

The following are approximate future minimum base lease payments, excluding CAM, in connection with this lease:

<u>Year ending June 30,</u>		
2009	\$	145,400
2010	\$	151,900
2011	\$	145,100
2012	\$	NONE

NOTE 10 - INCOME TAXES

Habitat for Humanity of Palm Beach County, Inc. and Habitat Restore, Inc. are nonprofit organizations exempt from tax under Internal Revenue Code Section 501(c)(3); therefore, no tax provision has been made in the accompanying combined financial statements.

NOTE 11 - TEMPORARILY RESTRICTED ASSETS

At June 30, 2008, temporarily restricted net assets consisting of cash and cash equivalents and unconditional promises to give are available for the following purposes:

Construction of homes	\$	238,144
For periods after June 30, 2008		<u>271,156</u>
	\$	<u>509,300</u>

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2008

NOTE 12 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information:

Cash received during the year for -		
Interest	\$	13,220
Cash paid during the year for -		
Interest	\$	40,494