

**HABITAT FOR HUMANITY
OF THE WEST VALLEY**

FINANCIAL STATEMENTS

Year Ended June 30, 2008

**HABITAT FOR HUMANITY
OF THE WEST VALLEY**

FINANCIAL STATEMENTS

Year Ended June 30, 2008

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Mayer Hoffman McCann P.C.

An Independent CPA Firm

3101 North Central Avenue, Suite 300
Phoenix, Arizona 85012
602-264-6835 ph
602-265-7631 fx
www.mhm-pc.com

INDEPENDENT AUDITORS' REPORT

To the Board of Directors of

HABITAT FOR HUMANITY OF THE WEST VALLEY

We have audited the accompanying statement of financial position of **Habitat for Humanity of the West Valley** at June 30, 2008, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of the management of **Habitat for Humanity of the West Valley**. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. 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 audit provides 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 the West Valley** as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

Mayer Hoffman McCann P.C.

Phoenix, Arizona
September 24, 2008

HABITAT FOR HUMANITY OF THE WEST VALLEY

STATEMENT OF FINANCIAL POSITION

June 30, 2008

ASSETS

CASH	\$ 3,791,167
INVESTMENTS	158,117
PRESENT VALUE OF NON-INTEREST BEARING MORTGAGE LOANS, net of discount of \$13,949,473 at June 30, 2008 (effective rates from 6.45% to 8.00%)	17,164,616
RECEIVABLES, net	780,446
TRANSFERRED MORTGAGES RECEIVABLE, net of discount of \$695,058 at June 30, 2008 (effective rate of 6.45%)	736,283
INVENTORY - HABITAT RESTORE	159,372
LAND HELD FOR SALE	1,707,116
LAND HELD FOR DEVELOPMENT	5,015,479
CONSTRUCTION IN PROGRESS	1,316,542
PROPERTY AND EQUIPMENT, net	2,401,274
PREPAID EXPENSES AND OTHER ASSETS	66,519
GIFT ANNUITY RECEIVABLES	<u>18,576</u>
TOTAL ASSETS	<u>\$ 33,315,507</u>

LIABILITIES AND NET ASSETS

LINES OF CREDIT	\$ 4,500,000
ACCOUNTS PAYABLE AND ESCROW RESERVES	1,060,877
ACCRUED EXPENSES	354,749
DEFERRED REVENUE	871,311
NOTES PAYABLE, net	<u>4,589,721</u>
TOTAL LIABILITIES	<u>11,376,658</u>
NET ASSETS	
Unrestricted	
Board designated funds	1,120,617
Undesignated	<u>19,986,549</u>
Total unrestricted	21,107,166
Temporarily restricted	<u>831,683</u>
TOTAL NET ASSETS	<u>21,938,849</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 33,315,507</u>

See Notes to Financial Statements

HABITAT FOR HUMANITY OF THE WEST VALLEY

STATEMENT OF ACTIVITIES

Year Ended June 30, 2008

	Unrestricted	Temporarily Restricted	Total
SUPPORT AND REVENUES			
Contributions	\$ 479,906	\$ 670,235	\$ 1,150,141
Home sales	1,061,632	-	1,061,632
Mortgage discount amortization	501,315	-	501,315
Grants and contracts	301,168	124,416	425,584
Donated materials and services	217,060	-	217,060
Other revenues	167,210	-	167,210
Total support and revenues from operations before special events, Habitat ReStore operations, and net assets released from restrictions	2,728,291	794,651	3,522,942
 Special events:			
Special event revenues	38,195	-	38,195
Less costs of direct donor benefits	(11,720)	-	(11,720)
Gross profit on special events	26,475	-	26,475
Habitat ReStore revenues	818,168	-	818,168
Less operating expenses	(505,314)	-	(505,314)
Income from Habitat ReStore	312,854	-	312,854
Net assets released from restrictions	832,562	(832,562)	-
TOTAL SUPPORT AND REVENUES	3,900,182	(37,911)	3,862,271
 EXPENSES			
Program services:			
Homeowner construction and services	2,272,729	-	2,272,729
Supporting services:			
General and administrative	226,431	-	226,431
Fundraising	171,516	-	171,516
Total supporting services	397,947	-	397,947
TOTAL EXPENSES	2,670,676	-	2,670,676
 CONTRIBUTIONS TO HABITAT FOR HUMANITY INTERNATIONAL, INC.			
	47,023	-	47,023
CHANGE IN NET ASSETS BEFORE ADDITION OF NET ASSETS OF HABITAT FOR HUMANITY, VALLEY OF THE SUN, INC.	1,182,483	(37,911)	1,144,572
ADDITION OF NET ASSETS OF HABITAT FOR HUMANITY, VALLEY OF THE SUN, INC.	10,921,036	135,612	11,056,648
CHANGE IN NET ASSETS	12,103,519	97,701	12,201,220
NET ASSETS, BEGINNING OF YEAR	9,003,647	733,982	9,737,629
NET ASSETS, END OF YEAR	\$ 21,107,166	\$ 831,683	\$ 21,938,849

See Notes to Financial Statements

HABITAT FOR HUMANITY OF THE WEST VALLEY

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2008

PROGRAM SERVICES

Homeowner construction and services	
Cost of home sales	\$ 2,274,307
Overhead applied	252,710
Salaries	170,088
Equipment operation and maintenance	21,805
Depreciation and amortization	9,047
Payroll taxes and insurance	4,266
Other	32,182
Transferred to construction in progress	<u>(491,676)</u>
TOTAL PROGRAM SERVICES	<u>2,272,729</u>

SUPPORTING SERVICES

General and Administrative	
Salaries	229,595
Payroll taxes and employee benefits	54,470
Occupancy	55,459
Audit and accounting	20,110
Equipment rental and maintenance	5,672
Office supplies	23,077
Telephone	10,774
Postage and shipping	6,521
Travel and conference	4,802
Casualty insurance	4,432
Depreciation and amortization	49,143
Other	15,086
Overhead applied to program services	<u>(252,710)</u>
Total general and administrative	<u>226,431</u>
Fundraising	
Salaries	97,672
Special mailings	33,013
Payroll taxes and employee benefits	27,243
Travel and conference	342
Supplies	1,197
Other	<u>12,049</u>
Total fundraising	<u>171,516</u>
TOTAL SUPPORTING SERVICES	<u>397,947</u>
TOTAL EXPENSES	<u>\$ 2,670,676</u>

See Notes to Financial Statements

HABITAT FOR HUMANITY OF THE WEST VALLEY

STATEMENT OF CASH FLOWS

Year Ended June 30, 2008

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$ 12,201,220
Addition of Habitat for Humanity, Valley of the Sun, Inc., net of cash of \$1,571,348	(9,485,300)
Adjustment to reconcile change in net assets to net cash provided by operating activities:	
Face value of mortgages issued	(894,015)
Amortization of mortgage receivable discount	(501,315)
Discount on notes payable	(3,924)
Discount on mortgages issued	810,826
Depreciation and amortization of property and equipment	67,775
Changes in operating assets and liabilities:	
Decrease (increase) in:	
Receivables	(29,834)
Inventory - Habitat ReStore	(9,626)
Land held for development	(294,968)
Construction in progress	(69,517)
Prepaid expenses and other assets	(5,601)
Gift annuity receivables	23,034
Increase (decrease) in:	
Accounts payable and escrow reserves	165,427
Accrued expenses	(27,077)
Deferred revenue	(139,302)
Net cash provided by operating activities	<u>1,807,803</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchases of property and equipment	<u>(13,880)</u>
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CASH FLOWS FROM FINANCING ACTIVITIES

Proceeds from notes payable	30,000
Payments on notes payable	<u>(17,505)</u>
Net cash provided by financing activities	<u>12,495</u>

NET CHANGE IN CASH 1,806,418

CASH, BEGINNING OF YEAR 1,984,749

CASH, END OF YEAR \$ 3,791,167

See Notes to Financial Statements

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(1) Organization operations and summary of significant accounting policies

Habitat for Humanity of the West Valley (the "Organization") was incorporated on December 5, 1985. The Organization is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), an ecumenical non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, the Organization is primarily and directly responsible for the legal, organizational, fundraising, family partnering and selection, financial, and construction aspects of the work. The Organization, through its many volunteers, constructs affordable housing in the metropolitan Phoenix area and transfers the homes to qualified families at approximately cost and provides non-interest bearing mortgage loans.

Effective June 30, 2008, the Organization merged with **Habitat for Humanity, Valley of the Sun, Inc.** ("VOS"). VOS is also an affiliate of Habitat International and provides similar services as the Organization. As a result of the merger, VOS ceased to exist as a separate legal entity (Note 13). Subsequent to June 30, 2008, the Organization changed its name to Habitat for Humanity Central Arizona.

The significant accounting policies followed by the Organization are as follows:

Basis of presentation – The accompanying financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

Management's use of estimates – The preparation of financial statements in conformity with U.S. 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Home sales – Homes are sold to qualified buyers at approximately the cost to build the home. Non-interest bearing mortgages are accepted as payment for the homes sold. Home sales are recorded at the discounted value of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at various rates ranging from 6.45% to 8.00% based upon prevailing market rates for low income housing at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. During the year ended June 30, 2008, 15 homes were sold by the Organization. Additionally, 34 homes were sold by VOS during the year ended June 30, 2008, prior to the merger with the Organization.

Mortgage loans receivable – The Organization's non-interest bearing mortgages consist of amounts due from homeowners. The Organization performs extensive credit and work history evaluations before the sale of a home. The Organization also has a perfected security interest in all homes they sell. The value of each home is generally greater than the respective carrying value of the mortgage due.

Mortgage loans receivable are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to mortgages receivable. At June 30, 2008, management believes mortgage loans receivable to be fully collectible, therefore no allowance has been recorded.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(1) Organization operations and summary of significant accounting policies (continued)

Warranty reserve – The Organization provides all homebuyers with mechanical and structural warranties ranging from one to ten years. The Organization's experience in warranty work claims has been very low.

An accrual for estimated future warranty expense is recorded and evaluated on an annual basis. Actual warranty expenses are charged against the accrual as incurred. No warranty expense was recorded for 2008. The accrued warranty reserve for homes was \$12,750 at June 30, 2008. Because of the inherent uncertainties in estimating warranty costs, it is at least reasonably possible that the Organization's estimates of these costs will change in the near term.

Escrow reserves – Either independent third parties or the Organization services the mortgages on homes the Organization sells. Included in cash are amounts received from homeowners for insurance, property taxes and home maintenance (escrow funds). These amounts will be used to pay amounts as they become due. A corresponding liability is included in accounts payable and escrow reserves in the accompanying statement of financial position. At June 30, 2008, escrow reserves totaled \$197,213.

Cash – Cash includes cash and, at times, cash equivalents consisting of highly liquid financial instruments purchased with original maturities of three months or less. Cash deposits at commercial banks are insured in limited amounts by the Federal Deposit Insurance Corporation (FDIC).

Receivables – Receivables primarily consist of construction cost reimbursements from the Self-Help Home Ownership Partnership (SHOP). Receivables are stated at the amount management expects to collect from outstanding balances. Management provides for probable uncollectible amounts through a charge to earnings and a credit to a valuation allowance based on its assessment of the current status of individual accounts. Balances that are still outstanding after management has used reasonable collection efforts are written off through a charge to the valuation allowance and a credit to receivables. At June 30, 2008, management has recorded an allowance for uncollectible receivables of \$4,500.

Transferred Mortgage Receivable – Prior to the merger, VOS transferred \$1,431,341 (net of discount of \$695,058) of mortgages receivable to a bank in accordance with SFAS No. 140 (As Amended), *Accounting for Transfers and Servicing of Financial Assets and Extinguishments of Liabilities*. Under SFAS No. 140, VOS has maintained effective control over the assets transferred; accordingly the transfer is accounted for as a secured borrowing. A related liability of \$870,811 is included in deferred revenue on the statement of financial position. The proceeds from the secured borrowing of approximately \$871,000 were used to pay down \$250,000 of long-term debt and to build up cash reserves for future operations.

Investments – The Organization reports investments in accordance with SFAS No. 124, *Accounting for Certain Investments Held by Not-for-Profit Organizations*. Under SFAS No. 124, the Organization reports investments in equity securities that have readily determinable fair value, and all investments in debt securities, at fair value. The fair values of investments are based on quoted market prices. At June 30, 2008, investments consisted of common stock and mutual funds.

Inventory - Habitat ReStore – Inventory - Habitat ReStore consists of donated building supplies, purchased flooring, and other home improvement items. Purchased inventory is valued at cost. Donated inventory is valued at its estimated fair value based on its expected selling price.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(1) **Organization operations and summary of significant accounting policies (continued)**

Land held for sale – During 2008, the Organization entered into negotiations to sell land located in Buckeye, Arizona. Management expects the land to be sold by the end of December 2008. Land held for sale is stated at cost. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories is less than the carrying amount. No impairment losses were recorded during 2008, and management does not believe impairment indicators are present.

Land held for development and construction in progress – Land held for development and construction in progress are stated at cost and include land under development, developed lots, direct and indirect costs of housing construction and capitalized interest, property taxes and overhead incurred during the development period. Cost is determined by the specific identification and per unit methods. During the year ended June 30, 2008, VOS capitalized \$50,810 of interest related to land held for development. Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs only if the estimated future undiscounted net cash flows from the real estate inventories is less than the carrying amount. No impairment losses were recorded during 2008, and management does not believe impairment indicators are present. Land and offsite development costs associated with homes under construction are included in construction in progress in the accompanying statement of financial position.

Property and equipment and related depreciation - Purchased property and equipment is valued at cost. Donated property and equipment is recorded at the fair value at the date of gift to the Organization. Maintenance and repairs are charged to operations when incurred. Betterments and renewals in excess of \$1,000 are capitalized. When property and equipment are sold or otherwise disposed of, the asset account and related accumulated depreciation account are relieved, and any gain or loss is included in operations. Depreciation of property and equipment is computed on a straight-line basis over the following estimated useful lives:

Buildings	40 years
Computers and office equipment	3 - 10 years
Vehicles	5 - 7 years
Leasehold improvements	5 - 10 years
Construction equipment and tools	5 - 10 years
Furniture and fixtures	5 years

Donations of property and equipment are recorded as contributions at their estimated fair value at the date of donation. Such donations are reported as increases in unrestricted net assets unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted contributions absent donor stipulations regarding how long those donated assets must be maintained. The Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies temporarily restricted net assets to unrestricted net assets at that time.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(1) Organization operations and summary of significant accounting policies (continued)

Impairment of long-lived assets - The Organization accounts for long-lived assets in accordance with the provisions of SFAS No. 144, *Accounting for the Impairment of Long-Lived Assets* ("SFAS No. 144"). SFAS No. 144 requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value less costs to sell. No impairment charges were recorded for 2008.

Contributions - The Organization accounts for contributions in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made* ("SFAS No. 116"). Contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions. All 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 or permanently restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions. Restricted support, where restrictions are met in the same period as the donation is made, is shown as additions to unrestricted support.

Donated materials and services - Donated materials and services are recognized as contributions in accordance with SFAS No. 116 at their estimated fair value if the services (a) create or enhance the Organization's non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased. Donated materials consist primarily of construction materials. No amounts have been reflected in the financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of SFAS No. 116; however, a substantial number of volunteers have donated a significant amount of time in the Organization's program services and fundraising campaigns. The Organization estimates the fair value of volunteer services during 2008 not reflected in the accompanying financial statements to be approximately \$599,355.

Grants and contract revenue recognition - The Organization receives funding from several federal financial assistance programs that supplement its traditional funding sources. The Organization recognizes the award as revenue as the expenses stipulated in the grant agreement have been incurred. Grants received in a period prior to the period covered by the grant are included in deferred revenue in the statement of financial position. Funding sources may, at their discretion, request reimbursement for expenses or return of funds or both, as a result of noncompliance by the Organization with the term of the grants or contracts.

Grants receivable are stated at the amount the Organization expects to collect under the terms of the individual accounts. On a periodic basis, management evaluates its receivable and determines the requirement for an allowance for doubtful accounts, based on its assessment of the current status of individual accounts. A receivable is written off when it is determined that all collection efforts have been exhausted. Grants receivable are considered by management to be fully collectible and, accordingly, an allowance for doubtful accounts has not been provided.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(1) Organization operations and summary of significant accounting policies (continued)

Special event revenues - The Organization conducts special events in which a portion of the gross proceeds paid by the participant represents payment for the direct cost of the benefits received by the participant at the event. Unless a verifiable, objective means exists to demonstrate otherwise, the fair value of meals and entertainment provided at special events is measured at the actual cost to the Organization. The direct costs of special events, which ultimately benefit the donor rather than the Organization, are recorded as costs of direct donor benefit in the accompanying statement of activities.

Functional expense allocation - Expenses are charged to programs and supporting services on the basis of periodic time and expense studies. General and administrative expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Income tax status - The Organization qualifies as a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code (the "Code"), accordingly, there is no provision for income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

Recently issued accounting standards - In June 2006, the Financial Accounting Standards Board (FASB) issued interpretation No. 48, *Accounting for Uncertainty in Income Taxes* ("FIN 48"). The interpretation clarifies the accounting for uncertainty in income taxes recognized in a company's financial statements in accordance with SFAS No. 109, *Accounting for Income Taxes*. Specifically, the pronouncement prescribes a recognition threshold and a measurement attributable for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The interpretation also provides guidance on the related derecognition, classification, interest and penalties, accounting for interim periods, disclosure and transition of uncertain tax positions. While the Organization is a tax exempt organization under Section 501(c)(3) of the Internal Revenue Code, income determined to be unrelated business taxable income (UBTI) would be taxable. The interpretation was effective for fiscal years beginning after December 15, 2006. FIN 48 was adopted in 2008 and did not have a significant impact on the Organization's financial statements.

In September 2006, the Financial Accounting Standards Board (FASB) issued SFAS No. 157, *Fair Value Measurements*. SFAS No. 157 defines fair value, establishes a framework for measuring fair value in accordance with U.S. generally accepted accounting principles, and expands disclosures about fair value measurements. SFAS No. 157 applies under other accounting pronouncements that require or permit fair value measurements. Accordingly, this statement does not require new fair value measurements. SFAS No. 157 is effective for financial statements issued for fiscal years beginning after November 15, 2007. At this time, the Organization has not yet evaluated the impact of adopting the standard.

In August 2008, the FASB issued FASB Staff Position No. 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*. FSP 117-1 provides guidance on the net asset classification of donor-restricted endowment funds for a not-for-profit organization that is subject to an enacted version of the Uniform Prudent Management of Institutional Funds Act of 2006 (UPMIFA). The state of Arizona enacted a version of UPMIFA in June 2008 that will be in effect for the Organization's fiscal year 2009. The administration of the Organization will need to interpret the relevant law. FSP 117-1 also requires additional disclosures about an organization's endowment funds, whether or not the organization is subject to UPMIFA. The disclosure requirements of FSP 117-1 will be effective for the Organization in fiscal year 2009.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(2) Cash

Cash consists of:

	<u>2008</u>
Demand deposit accounts	\$ 3,504,237
Escrow reserves	197,213
Government money market fund	89,717
Total cash	<u>\$ 3,791,167</u>

Cash balances are restricted and designated as follows:

Funds temporarily restricted by donors:	
Home construction	\$ 829,871
Stardust Community Fund	1,812
Total temporarily restricted funds	<u>\$ 831,683</u>

(3) Present value of non-interest bearing mortgage loans

Present value of non-interest bearing mortgage loans consist of:

Face value of mortgages	\$ 31,114,089
Unamortized discount	<u>(13,949,473)</u>
Present value of non-interest bearing mortgage loans	<u>\$ 17,164,616</u>

Annual collection of the mortgage notes receivable net of the unamortized discount at June 30, 2008 are due as follows:

Years ending June 30:

2009	\$ 1,720,285
2010	1,727,815
2011	1,733,995
2012	1,733,784
2013	1,728,121
Thereafter	<u>22,470,089</u>
Total annual receipts	<u>\$ 31,114,089</u>

(4) Land held for development

Land held for development consists of:

Land held for development	\$ 3,057,231
Land improvements	1,958,248
Total land held for development	<u>\$ 5,051,479</u>

Land held for development includes an estimated 221 lots in Glendale, Peoria, Chandler, Phoenix, Avondale and Surprise. Land improvements represent the costs of preparing the land for development, which includes utilities and sewer connections, streets, sidewalks and streetlights. A portion of land improvements are allocated to the homes when sold.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(5) Property and equipment

Property and equipment consists of:

Cost and donated value:

Buildings	\$ 2,195,995
Computers and office equipment	171,665
Vehicles	143,554
Leasehold improvements	142,369
Construction equipment and tools	94,480
Furniture and fixtures	<u>2,690</u>
Total cost and donated value	2,750,753
Accumulated depreciation and amortization	<u>(349,479)</u>
Property and equipment, net	<u>\$ 2,401,274</u>

Depreciation and amortization expense charged to operations was \$67,775 for 2008.

(6) Habitat ReStore

The Organization operates a discount home improvement center (the "ReStore") in Peoria. The ReStore receives donations of building supplies, furniture and appliances and sells these items to the general public. The donated items are recorded in the statement of activities at their fair market value. The fair market value is determined by the selling price for that item. The accounting for the donations and the sales transactions is as follows:

Donations to Habitat ReStore	\$ 767,094
Sales of donated and purchased items	818,168
Fair market value of items sold	(818,168)
Purchased inventory	<u>51,074</u>
Gross revenue from Habitat ReStore operation	<u>\$ 818,168</u>

VOS operates two ReStores, one in Phoenix and one in Mesa, similar to the Organization. For the year ended June 30, 2008, VOS ReStore donation revenue was approximately \$1,089,000 at the date of merger, VOS' ReStore inventory was approximately \$109,000.

(7) Lines of credit

The Organization has a \$5,000,000 line of credit with a bank. Draws are used to fund the acquisition of land held for development. The line is secured by the Organization's mortgages, and has an average interest rate of 6.13% at June 30, 2008. The line of credit contains various financial covenants and matures on March 21, 2009. As of June 30, 2008, the Organization had \$4,500,000 outstanding under the line of credit.

The Organization has a \$1,500,000 line of credit with a bank with interest calculated at the bank's prime rate minus .5% (4.5% at June 30, 2008). The line is secured by the Organization's mortgages, contains various financial covenants, and matures November 3, 2008. There were no amounts outstanding under the line of credit as of June 30, 2008.

The Organization has an unsecured business line of credit with a bank with an available limit of \$500,000, with interest calculated at the bank's prime rate plus of 1% (9.25% at June 30, 2008). The line of credit contains various financial covenants and matures on December 18, 2008. There were no amounts outstanding under the line of credit as of June 30, 2008.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(8) Notes payable

During the year ended June 30, 2008, VOS purchased a building located at 115 East Watkins Street, Phoenix, Arizona for approximately \$2,100,000. The Organization paid \$420,000 in cash and obtained a bridge loan from a bank for approximately \$1,680,000. Monthly interest-only payments were paid at a rate of 1.69% above the LIBOR rate (5.765% as of the date of the loan) rounded to the nearest 0.125%. The bridge loan was paid in full during 2008 upon obtaining permanent financing with GE Government Finance, Inc. (Note 1).

Notes payable consists of:

Notes payable to banks and financial institutions:

Note payable to GE Government Finance, Inc., secured by a building. The proceeds from the note were used to purchase the building being pledged as security. The loan bears interest at 5.9%, and is payable in June 2028.

\$ 1,718,000

Promissory note to Maricopa County IDA, secured by a deed of trust on real property. The proceeds from the note were used to construct homes. Interest payments are due monthly at an interest rate of 3% per annum. The note is payable in full, together with all accrued interest on September 1, 2010.

1,577,000

Unsecured note payable to Wells Fargo Bank to fund the development of infrastructure in the 12th Street development named Oro Vista. The loan bears interest at 2%, and is payable in March 2013.

700,000

Notes payable to the City of Chandler to fund the acquisition of fourteen units of real property. The City of Chandler loaned the Organization \$30,000 for each purchase of thirteen units of real property and \$72,500 for one unit of real property. The loans bear interest at 0%. The loans shall be deemed forgiven after three years, as long as the Organization has constructed single-family residences, whose designs have been approved by the City of Chandler, and are sold to low-income families.

462,500

Note payable to US Bank, secured by a vehicle. The proceeds from the note were used to purchase the vehicle being pledged as security. The loan bears interest at 10.51%, and is payable in November 2011.

19,858

Notes payable to Habitat for Humanity International:

Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note bears interest at 0% and has a discount of \$11,941. The note is payable in 47 monthly installments of principal of \$1,171, and a final payment of \$1,213 maturing in July 2011.

56,250

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(8) Notes payable (continued)

Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note bears interest at 0% and has a discount of \$11,297. A portion of the note (70%) is payable within twenty-four (24) months of receipt of award with the remainder payable within thirty-six (36) months of receipt.

\$ 53,259

"Housing Opportunity Programs" loan, payable in forty-eight monthly installments of principal of \$1,458, maturing in July 2008. The loan does not bear interest and the discount is immaterial.

16

Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven (47) monthly installments of principal of \$562 and a final payment upon maturity of \$586. The note matures in July 2012. The note does not bear interest and has a discount of \$3,513.

27,000

Promissory note payable to Habitat for Humanity International, Inc. as part of the Self-Help Homeownership Opportunity Program ("SHOP"). The proceeds from the note are required to be used for infrastructure costs. The note is payable in forty-seven monthly installments of principal of \$62, and a final payment upon maturity of \$86. The note matures in July 2013. The note does not bear interest and has a discount of \$411.

3,000

4,616,883

27,162

Less: discount on non-interest bearing notes

Total notes payable

\$ 4,589,721

Annual maturities of the notes payable outstanding at June 30, 2008 are as follows:

Years Ending June 30,

2009	\$ 157,663
2010	215,800
2011	1,877,010
2012	88,999
2013	796,501
Thereafter	<u>1,480,910</u>
Total annual maturities	<u>\$ 4,616,883</u>

(9) Contribution to Habitat for Humanity International, Inc.

The Organization contributes 10% of the Organization's unrestricted annual contributions to Habitat International for their international housing programs. For the year ended June 30, 2008, contributions to Habitat for Humanity International were \$47,023.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(10) Operating leases

The Organization leases buildings and equipment under various operating lease agreements expiring in various years through October 2012 which include the leases of VOS assumed in connection with the merger. Minimum future rental payments under operating leases having remaining terms in excess of one year at June 30, 2008 are as follows:

Years Ending June 30,

2009	\$ 462,732
2010	348,108
2011	241,260
2012	231,408
2013	174,528
Total minimum lease payments	<u>\$ 1,458,036</u>

In the normal course of business, operating leases are generally renewed or replaced by other leases. Total rental expense for operating leases with terms in excess of one month was \$151,725 for the year ended June 30, 2008. Included in the change of net assets from the addition of VOS is \$287,660 or rental expense.

(11) Board designated funds and temporarily restricted net assets

Board designated funds and temporarily restricted net assets are available for the following purposes at June 30, 2008:

Board designated funds:

Lot fund	\$ 700,000
Reserve fund	20,224
Fund for Humanity	151,668
Johnson Townhomes	220,864
Miscellaneous	27,861
Total board designated funds	<u>\$ 1,120,617</u>

Temporarily restricted net assets:

Home construction	\$ 829,871
Stardust Community Fund	1,812
Total temporarily restricted net assets	<u>\$ 831,683</u>

(12) Retirement plans

The Organization established a 401(k) retirement savings plan (tax deferred annuity) for its employees. The Organization makes its employees aware of the plan, withholds voluntary contributions from paychecks and remits the contributions to an independent trustee. Each participant may contribute his or her eligible compensation on a pretax basis to the plan up to a maximum allowed by the Internal Revenue Code. Total employer contributions to the plan were \$15,341 for 2008. Effective June 30, 2008, employees of Habitat for Humanity, Valley of the Sun, Inc. are eligible to participate in the plan.

(13) Merger with Habitat for Humanity, Valley of the Sun, Inc.

On June 30, 2008, the Organization and Habitat for Humanity, Valley of the Sun, Inc. combined their operations through a merger. This combination was recorded using the purchase method of business combinations. As a result of the merger, Habitat for Humanity, Valley of the Sun, Inc. ceased to exist as a separate legal entity.

HABITAT FOR HUMANITY OF THE WEST VALLEY

NOTES TO FINANCIAL STATEMENTS

June 30, 2008

(13) Merger with Habitat for Humanity, Valley of the Sun, Inc. (continued)

For 2008, the assets and liabilities of Habitat for Humanity, Valley of the Sun, Inc. are included in the accompanying statement of financial position and the amount of net assets is reflected as "Addition of Net Assets of Habitat for Humanity, Valley of the Sun, Inc." in the accompanying statement of activities. The following table summarizes the estimated fair values of the assets and liabilities assumed at the date of merger:

	June 30, 2008
Cash	\$ 1,571,348
Investments	158,117
Mortgages receivable, net	11,217,270
Receivables, net	2,100,953
Inventory	108,529
Land held for development	4,590,807
Property and equipment, net	2,266,244
Prepaid expenses and other assets	16,978
Total assets	<u>\$ 22,030,246</u>
Lines of credit	\$ 4,500,000
Accounts payable and escrow reserves	742,051
Accrued expenses	297,108
Deferred revenue	870,811
Notes payable	4,563,628
Unrestricted net assets	10,921,036
Temporarily restricted net assets	135,612
Total liabilities and net assets	<u>\$ 22,030,246</u>

The following table summarizes the operations for the period July 1, 2007 through the date of merger:

Total support and revenues	\$ 8,207,088
Total expenses	(9,100,178)
Contributions to Habitat for Humanity International, Inc.	(158,924)
Change in net assets	<u>\$ (1,052,014)</u>