

HABITAT FOR HUMANITY
PHILADELPHIA, INC.
(a nonprofit corporation)
FINANCIAL STATEMENTS
AS OF
JUNE 30, 2006

Together With
Independent Auditor's Report

HABITAT FOR HUMANITY PHILADELPHIA, INC.

JUNE 30, 2006

C O N T E N T S

Independent Auditor's Report	1
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5
Notes to Financial Statements	6-12

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Habitat for Humanity Philadelphia, Inc.
Philadelphia, PA

I have audited the accompanying statement of financial position of HABITAT FOR HUMANITY PHILADELPHIA, INC. (a Pennsylvania nonprofit corporation) as of June 30, 2006, and the related statements of activities, functional expenses and cash flows for the year then ended. These financial statements are the responsibility of Habitat for Humanity Philadelphia, Inc.'s management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the Board of Directors and management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat For Humanity Philadelphia, Inc. as of June 30, 2006, and the change in net assets and cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.



Katherine R. Conlon
Certified Public Accountant
October 11, 2006

HABITAT FOR HUMANITY PHILADELPHIA, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2006

ASSETS

CURRENT ASSETS

Cash	\$ 91,794
Mortgages receivable - current portion (net of accumulated amortization of \$73,926)	126,974
Prepaid expenses	8,107
Investments - short-term	<u>326,354</u>
Total current assets	<u>553,229</u>

BUILDINGS AND EQUIPMENT (net)	<u>128,226</u>
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OTHER ASSETS

Completed houses	1,606,280
Construction in progress	416,826
Mortgages receivable - long term (net of accumulated amortization of \$1,022,444)	<u>1,111,654</u>
Total other assets	<u>3,134,760</u>

Total assets	<u>\$3,816,215</u>
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LIABILITIES AND NET ASSETS

CURRENT LIABILITIES

Accounts payable	\$ 131,198
Accrued payroll and taxes payable	9,376
Accrued expenses	19,271
Loan payable	<u>2,900</u>
Total current liabilities	<u>162,745</u>

LONG-TERM LIABILITIES

Escrow deposits	7,159
Lease purchase deposits	<u>223,705</u>
Total long-term liabilities	<u>230,864</u>
Total liabilities	<u>393,609</u>

NET ASSETS

Unrestricted	
Operating	2,892,231
Board designated	<u>300,000</u>
Total unrestricted net assets	3,192,231
Temporarily restricted	<u>230,375</u>
Total net assets	<u>3,422,606</u>
Total liabilities and net assets	<u>\$3,816,215</u>

See independent auditor's report and the accompanying notes
which are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED

JUNE 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
SUPPORT AND REVENUE			
Individuals	\$ 323,842	\$ -	\$ 323,842
Foundations	25,705	430,704	456,409
Corporations	22,684	121,000	143,684
Churches	73,145	59,300	132,445
Program revenue	5,782	-	5,782
Amortization of mortgage discount	81,979	-	81,979
Interest	4,758	-	4,758
Other revenue	180	-	180
Donated equipment	26,124	-	26,124
Gain on sale of assets	150,939	-	150,939
Unrealized gain on investments	46	-	46
Net assets released from restrictions: Satisfaction of program restrictions	<u>453,357</u>	<u>(453,357)</u>	<u>-</u>
Total support and revenue	<u>1,168,541</u>	<u>157,647</u>	<u>1,326,188</u>
EXPENSES			
Program	570,893	-	570,893
Administrative	77,763	-	77,763
Fundraising	<u>192,522</u>	<u>-</u>	<u>192,522</u>
Total expenses	<u>841,178</u>	<u>-</u>	<u>841,178</u>
Change in net assets	327,363	157,647	485,010
Net assets at beginning of period	<u>2,864,868</u>	<u>72,728</u>	<u>2,937,596</u>
Net assets at end of period	<u>\$3,192,231</u>	<u>\$230,375</u>	<u>\$3,422,606</u>

See independent auditor's report and the accompanying notes
which are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED

JUNE 30, 2006

	<u>Program</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>
Americorps	\$ 59,583	\$ -	\$ -	\$ 59,583
Bad debts	13,000	-	-	13,000
Construction costs	15,011	-	-	15,011
Depreciation	11,681	2,002	4,075	17,758
Dues and subscriptions	596	102	208	906
Employee benefits	43,519	7,458	15,183	66,160
Family selection	2,893	-	-	2,893
Fundraising	-	-	22,691	22,691
Insurance	6,041	1,035	2,108	9,184
Interest	365	63	127	555
Maintenance	879	151	307	1,337
Office expense	21,165	3,627	7,384	32,176
Payroll	287,399	49,254	100,272	436,925
Payroll taxes	25,443	4,360	8,877	38,680
Postage and delivery	2,444	419	853	3,716
Printing and reproduction	-	-	7,379	7,379
Professional development	5,791	992	2,020	8,803
Professional fees	10,128	1,736	3,534	15,398
Program expenses	9,016	-	-	9,016
Promotional expense	-	-	4,144	4,144
Telephone	6,865	1,177	2,395	10,437
Tithe	6,470	-	-	6,470
Travel	18,881	3,236	6,588	28,705
Utilities	10,430	1,788	3,639	15,857
VISTA expenses	11,178	-	-	11,178
Web site	<u>2,115</u>	<u>363</u>	<u>738</u>	<u>3,216</u>
	<u>\$570,893</u>	<u>\$77,763</u>	<u>\$192,522</u>	<u>\$841,178</u>

See independent auditor's report and the accompanying notes
which are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED

JUNE 30, 2006

CASH FLOWS FROM OPERATING ACTIVITIES

Change in net assets	\$485,010
Adjustments to reconcile change in net assets to net cash provided by operating activities	
Depreciation	17,758
Amortization on mortgage discount	(81,979)
Realized gain on sale of warehouse	(178,807)
Unrealized gain on investments	(46)
Donated vehicle	(26,124)
(Increase) decrease in	
Grants receivable	13,000
Miscellaneous receivable	1,556
Mortgages receivable	221,420
Prepaid expenses	5,515
Construction in progress	(248,707)
Completed houses	(370,280)
Increase (decrease) in	
Accounts payable	23,165
Accrued expenses	(5,232)
Payroll and taxes payable	(14,920)
Escrow and lease deposits	<u>52,948</u>
Net cash used for operating activities	<u>(105,723)</u>

CASH FLOWS USED IN INVESTING ACTIVITIES

Net increase in investments	<u>(318,258)</u>
Net cash used for investing activities	<u>(318,258)</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Sale of warehouse	350,000
Repayment of loan payable	<u>(1,908)</u>
Net cash provided by financing activities	<u>348,092</u>

Net decrease in cash (75,889)

CASH, beginning of period 167,683

CASH, end of period \$ 91,794

SUPPLEMENTAL SCHEDULE:

Interest paid	<u>\$555</u>
Donated vehicle	<u>\$26,124</u>

See independent auditor's report and the accompanying notes
which are an integral part of this statement.

HABITAT FOR HUMANITY PHILADELPHIA, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) ORGANIZATION

Habitat For Humanity Philadelphia, Inc. (Habitat) was incorporated in February, 2003, under the laws of the Commonwealth of Pennsylvania 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 builds simple, decent houses with the help of low-income homeowner families. The organization focuses its efforts in Philadelphia, Pennsylvania.

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.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Presentation

The organization follows Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*, to prepare its financial statements in accordance with generally accepted accounting standards. Under SFAS No. 117, the organization is required to report information regarding its financial position and activities according to three

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(a) Basis of Presentation (Cont'd)

classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of management estimates.

(b) Revenue Recognition

Habitat receives donations to fund acquisition, construction and rehabilitation costs of houses. These costs are capitalized as construction in progress. When the house is completed, it is transferred to a qualified family and recorded as a sale of property for the mortgage balance the homeowner assumes.

(c) Restricted and Unrestricted Support

The organization follows Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, in recording contributions received. 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 restricted net assets are reclassified to unrestricted net assets and reported in the Statement of Activities as net assets released from restrictions.

(d) Expense Allocation

The cost of providing various programs and other activities has 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 benefitted.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(e) Income Taxes

Habitat for Humanity Philadelphia, Inc. is a tax-exempt organization under Section 501(c)(3) of the Internal Revenue Code and, accordingly, no provision for income taxes is provided. Donors may deduct contributions to the organization as provided by the Internal Revenue Code.

(f) Buildings, Equipment and Furnishings

Buildings, equipment and furnishings contributed and purchases made during the year relating to improvements and equipment over \$1,000 are capitalized using their estimated fair market value or historical cost and are depreciated on the straight line basis over the estimated useful lives of the assets. Expenditures for maintenance and repairs incurred in the ordinary course of operations are expensed.

(g) Contributed Services and Materials

Unpaid volunteers have made significant contributions of their time to the organization's activities. However, the value of this contributed time is not reflected in these financial statements since it is not susceptible to objective measurement or evaluation. Construction materials donated have been recorded at their estimated fair market value.

(h) Cash

For purposes of this statement, cash is defined as cash on hand and held in financial institutions.

(i) Investment Policy

Investments of the organization are reported at fair market value as of June 30, 2006. Investment earnings on the Statement of Activities includes interest, dividends and gains and losses on the sale of assets. Changes in market value of assets held are reported as unrealized gains and losses.

(3) MORTGAGES RECEIVABLE

Mortgages receivable consists of mortgages to homeowners. The mortgages are non-interest bearing and are secured by real estate. The mortgage loans are payable in monthly installments ranging from \$83 to \$208 over 15 to 25 year terms. The mortgages are discounted using rates provided by Habitat for Humanity International, Inc. which reflect the current market conditions.

Mortgages receivable at June 30, 2006, are as follows:

Mortgages receivable	\$2,334,998
Less: unamortized mortgage discount	<u>(1,096,370)</u>
Net mortgages receivable	1,238,628
Less: current portion	<u>(126,974)</u>
Mortgages receivable, long-term	<u><u>\$1,111,654</u></u>

(4) BUILDINGS AND EQUIPMENT

Buildings and equipment at June 30, 2006, consists of the following:

Land	\$ 5,000
Buildings used by Habitat	164,246
Office equipment	51,984
Vehicles	31,574
Small equipment	<u>27,270</u>
	280,074
Less: accumulated depreciation	<u>(151,848)</u>
	<u><u>\$128,226</u></u>

(5) COMPLETED HOUSES UNDER LEASE PURCHASE

In some cases, houses completed and available are leased to the future homeowner until final closing and transfer of ownership occur. Prior to the transfer, the future homeowner makes payments which Habitat holds and applies to defray closing costs. Once a family moves into the home, they are required to make monthly payments which are applied toward real estate taxes, property insurance, and a down payment to reduce the mortgage they will assume.

(6) CONSTRUCTION IN PROGRESS

Construction in progress represents costs incurred to build/rehabilitate single family dwellings. Upon completion of construction, these houses will be sold or leased under a lease purchase agreement until clear title can be transferred to the member family.

(7) INVESTMENTS

Investments are stated at their respective market values. All ordinary income and gains and losses arising from the sale or other disposition of investments are included in the statement of revenues and expenses. Investments at June 30, 2006 are as follows:

	<u>Market</u>	<u>Cost</u>	<u>Unrealized Gain</u>
Money market	\$ 25,310	\$ 25,310	\$ -
Money funds	300,000	300,000	-
Stock	<u>1,044</u>	<u>1,005</u>	<u>39</u>
Balance at 6/30/06	<u>\$326,354</u>	<u>\$326,315</u>	<u>\$ 39</u>

(8) LOANS PAYABLE

(a) SHOP Loans

Habitat obtained financing for property rehabilitation from Habitat for Humanity International, Inc. through their Self-Help Homeownership Opportunity Program (SHOP). The financing is received in the form of a donation and loan. The donation represents 75% of the amount received, and the loan represents the remaining 25%. The loan totaled \$7,670 at 0% interest with 5-year repayment terms. The outstanding balance at June 30, 2006 totaled \$2,900 and will be paid in full during the subsequent year.

(b) Affordable Housing Program

Habitat has obtained financing of \$45,000 under the Affordable Housing Program where Habitat draws down loan funds for construction. When the property is sold to a qualified purchaser, the loan to Habitat is forgiven and the purchaser assumes the loan as a soft second mortgage on the property.

(8) LOANS PAYABLE (CONT'D)

(b) Affordable Housing Program (Cont'd)

As of year end, \$15,000 had been drawn down. As of the date of this report, Habitat will not continue to participate in the program.

(9) COMMITMENTS AND CONTINGENCIES

The Pennsylvania Housing Finance Agency (PHFA), a state agency, assumed 7 mortgages held by Habitat. Habitat is responsible for maintaining the mortgages by collecting the payments. Should a homeowner become delinquent, PHFA will require repayment and discontinue the agreement for that mortgage. As of year end Habitat was contingently liable for the balance of those mortgages totaling \$168,834.

(10) LINE OF CREDIT

The organization has established a \$150,000 working capital line of credit with interest due monthly at a variable rate of 1/2% above prime (currently 6%). Principal and unpaid interest are due in full on February 15, 2007. At June 30, 2006, there was no balance due.

(11) TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are available for the following purposes or periods:

Construction	<u>\$230,375</u>
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(12) NET ASSETS RELEASED FROM DONOR RESTRICTIONS

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes specified by donors, as follows:

Construction	<u>\$453,357</u>
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(13) REVENUE SOURCES

Habitat for Humanity Philadelphia, Inc. received approximately 46% of its revenue from house sponsorships, approximately 24% of its revenue from individual contributions, and approximately 11% of its revenue from the sale of an asset for the year ended June 30, 2006.

(14) OPERATING LEASE OBLIGATIONS

The organization leases office equipment under 2 non-cancelable 5-year leases.

Minimum future rental payments under the operating leases as of June 30, 2006, are:

<u>Year Ending</u> <u>June 30,</u>	<u>Amount</u>
2007	\$ 9,480
2008	8,268
2009	8,268
2010	<u>4,134</u>
	<u>\$30,150</u>

Monthly rent expense is currently \$891 under these non-cancelable operating lease agreements and totaled \$9,480 for the year ended June 30, 2006.

(15) TRANSACTION WITH HABITAT FOR HUMANITY INTERNATIONAL, INC.

The organization annually remits a portion of its unrestricted contributions, excluding in-kind contributions. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2006, Habitat made contributions totaling \$6,470.

(16) PENSION PLAN

The organization has a 403(b) plan where employees may make payroll contributions which may be tax deferred in accordance with the Internal Revenue Code. All funds contributed are 100% vested in the employee's name.

(17) FINANCIAL INSTRUMENTS WITH CONCENTRATIONS OF CREDIT RISK

The financial transaction that potentially subjects the organization's concentrations of credit risk consists of the organization's placement of temporary cash investments. The organization creates a credit risk by having on deposit with one financial institution funds in excess of federally insured limits. At June 30, 2006, the organization had \$10,197 on deposit in excess of federally insured limits.