

**HABITAT FOR HUMANITY
OF ITASCA COUNTY, INC.
FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT
JUNE 30, 2009 AND 2008**

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**HABITAT FOR HUMANITY
OF ITASCA COUNTY, INC.
CORPORATE PROFILE
JUNE 30, 2009 AND 2008**

Date of Incorporation: September 14, 1992

State of Incorporation: Minnesota

Tax Status: Habitat for Humanity of Itasca County, Inc. is exempt from federal tax under Section 501(c)(3) of the Internal Revenue Code. The organization is also exempt from corporate income tax and sales tax by the State of Minnesota.

Business Purpose: Habitat for Humanity of Itasca County, Inc. believes that everyone can and should have a simple, decent place to live and to grow into all that they can be. The Organization is a home ownership program that instills pride and encourages hope by offering a constructive means for families to break the cycle of poverty by bringing together volunteers, families and supporters who want to make a difference in helping to build stable families, safer neighborhoods and caring communities.

Business Address: PO Box 81
Grand Rapids, MN 55744

Board of Directors: Gene Baker, President
Jane Bonneson, Secretary
Jared Pink, Treasurer
Steve Arbour
Ann Backes-Dodge
Jake Goering
Terry Lavallo
Dwight Rudquist
Laura Thompson
Keeley Todd
Wendy Uzelac

ACCOUNTANT'S REPORT

To the Board of Directors
Habitat for Humanity of Itasca County, Inc.
Grand Rapids, MN 55744

I have audited the accompanying statements of financial position of Habitat for Humanity of Itasca County, Inc. (a non-profit corporation) as of June 30, 2009 and 2008, and the related statements of activities, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audits.

I conducted my audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audits 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. 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 of Itasca County, Inc. as of June 30, 2009 and 2008, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Grand Rapids, Minnesota
January 13, 2010

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

ASSETS	2009	2008
Current Assets		
Cash & Cash Equivalents	\$ 155,540	\$ 227,108
Construction in Progress	125,048	61,658
Home & Building Supplies Inventory	11,000	22,000
Land for Development	81,424	82,326
Current Portion of Non-Interest Bearing Mortgage Loans	64,477	55,744
Total Current Assets	\$ 437,489	\$ 448,836
Fixed Assets		
Furniture, Fixtures & Equipment	\$ 29,174	\$ 29,174
Software	3,145	3,145
	\$ 32,319	\$ 32,319
Less: Accumulated Depreciation	(16,038)	(9,728)
Total Fixed Assets	\$ 16,281	\$ 22,591
Other Assets		
Non-Interest Bearing Mortgage Loans - net of current portion	\$ 1,248,708	\$ 1,117,646
Discount on Non-Interest Bearing Mortgage Loans	(765,624)	(688,389)
Total Other Assets	\$ 483,084	\$ 429,257
Total Assets	\$ 936,854	\$ 900,684

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.
STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2009 AND 2008

LIABILITIES & NET ASSETS	<u>2009</u>	<u>2008</u>
Current Liabilities		
Accounts Payable	\$ 5,666	\$ 4,850
Accrued Liabilities	3,866	2,739
Deposits	1,467	2,364
Current Portion of Non-Interest Bearing Notes Payable	<u>22,782</u>	<u>18,460</u>
Total Current Liabilities	<u>\$ 33,781</u>	<u>\$ 28,413</u>
 Long Term Liabilities		
Non-Interest Bearing Notes Payable - net of current portion	\$ 407,412	\$ 340,168
Discount on Non-Interest Bearing Notes Payable	<u>(229,920)</u>	<u>(193,378)</u>
Total Long Term Liabilities	<u>\$ 177,492</u>	<u>\$ 146,790</u>
Total Liabilities	\$ 211,273	\$ 175,203
Net Assets - Unrestricted	<u>725,581</u>	<u>725,481</u>
Total Liabilities & Net Assets	<u><u>\$ 936,854</u></u>	<u><u>\$ 900,684</u></u>

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.
STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

UNRESTRICTED NET ASSETS:	2009	2008
Support & Revenue:		
Contributions	\$ 196,667	\$ 230,568
Transfers to Homeowners	301,265	285,740
Fees Charged to Homeowners	28,000	-
ReStore Sales	113,194	77,148
Fundraising		
Special Events	12,291	21,242
Merchandise Sales	236	-
Total Support & Revenue	<u>\$ 651,653</u>	<u>\$ 614,698</u>
Expenses:		
Program Services		
Home Construction	\$ 358,080	\$ 292,066
ReStore	131,246	113,520
Management & General	114,274	110,161
Fund-Raising	4,198	8,225
Total Expenses	<u>\$ 607,798</u>	<u>\$ 523,972</u>
Other Income/(Expense)		
Contribution of Below-Market Interest Rate Debt	\$ 44,892	\$ 47,292
Mortgage Discount Amortization	33,082	29,519
Interest Income	2,439	3,159
Discount on Mortgages Originated	(110,317)	(163,200)
Amortization of Discount on Below-Market Note Payable	(13,851)	(12,134)
Total Other Income/(Expense)	<u>\$ (43,755)</u>	<u>\$ (95,364)</u>
INCREASE IN UNRESTRICTED NET ASSETS	\$ 100	\$ (4,638)
NET ASSETS, BEGINNING OF YEAR	<u>725,481</u>	<u>730,119</u>
NET ASSETS, END OF YEAR	<u><u>\$ 725,581</u></u>	<u><u>\$ 725,481</u></u>

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2009

	Program Services		Management & General	Fund-Raising	Total
	Home Construction	ReStore			
Construction Costs	\$ 289,400	\$ -	\$ -	\$ -	\$ 289,400
Salaries & Benefits	55,206	47,750	60,956	-	163,912
Professional Fees	378	-	7,766	-	8,144
Mortgage Assistance Fees	8,235	-	-	-	8,235
Dues & Memberships	-	100	1,186	-	1,286
Rent	-	53,287	11,320	-	64,607
Utilities	-	9,259	9,464	-	18,723
Small Tools & Equipment	1,672	4,491	204	-	6,367
Real Estate Taxes	-	-	-	-	-
Office Expense	982	3,502	4,492	-	8,976
Postage	-	168	711	-	879
Supplies	-	3,373	3,380	-	6,753
Insurance	-	1,059	2,370	-	3,429
Interest	-	-	-	-	-
Travel	-	193	2,015	-	2,208
Tithe to Habitat for Humanity International	-	-	2,926	-	2,926
Advertising	1,236	3,440	398	1,617	6,691
Cost of Sales & Events	-	-	-	2,581	2,581
Depreciation	-	-	6,309	-	6,309
Vehicle Expenses	-	3,374	-	-	3,374
Miscellaneous	971	1,250	777	-	2,998
Total	\$ 358,080	\$ 131,246	\$ 114,274	\$ 4,198	\$ 607,798

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
FOR THE YEAR ENDED JUNE 30, 2008

	Program Services		Management & General	Fund-Raising	Total
	Home Construction	ReStore			
Construction Costs	\$ 228,273	\$ -	\$ -	\$ -	\$ 228,273
Salaries & Benefits	53,511	47,140	56,625	-	157,276
Professional Fees	-	-	10,755	-	10,755
Mortgage Assistance Fees	7,300	-	-	-	7,300
Dues & Memberships	-	20	1,465	-	1,485
Rent	-	36,669	8,400	-	45,069
Utilities	-	8,323	4,109	-	12,432
Small Tools & Equipment	1,534	358	1,427	-	3,319
Real Estate Taxes	113	-	-	-	113
Office Expense	-	1,805	5,132	-	6,937
Postage	-	169	551	-	720
Supplies	-	1,889	2,802	-	4,691
Insurance	-	2,260	4,777	-	7,037
Interest	-	-	-	-	-
Travel	-	2,175	2,840	-	5,015
Tithe to Habitat for Humanity International	-	-	3,197	-	3,197
Advertising	-	9,955	1,305	113	11,373
Cost of Sales & Events	-	-	-	8,112	8,112
Depreciation	-	-	6,309	-	6,309
Vehicle Expenses	-	2,524	-	-	2,524
Miscellaneous	1,335	233	467	-	2,035
Total	\$ 292,066	\$ 113,520	\$ 110,161	\$ 8,225	\$ 523,972

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED JUNE 30, 2009 AND 2008

CASH FLOWS FROM OPERATING ACTIVITIES:	<u>2009</u>	<u>2008</u>
Increase in Net Assets	\$ 100	\$ (4,638)
Adjustments to reconcile increase in net assets to cash flows provided by (used in) operating activities:		
Donated Land	-	(10,000)
Land Used for Development	36,350	-
Transfers to Homeowners	(271,283)	(262,617)
Amortization of Mortgage Discounts	(33,082)	(29,519)
Contribution of Below-Market Interest Rate Debt	(44,892)	(47,291)
Discount on Mortgages Originated	110,317	163,200
Amortization of Discount on Below-Market Note Payable	13,851	12,133
Depreciation Expense	6,309	6,309
Changes in assets and liabilities:		
(Increase) Decrease in Construction in Progress	(63,390)	60,856
(Increase) Decrease in Building Supplies Inventory	11,000	2,409
Increase (Decrease) in Accounts Payable	817	538
Increase (Decrease) in Accrued Liabilities	1,127	(717)
Increase (Decrease) in Deposits	(897)	346
Net Cash Used In Operating Activities	<u>\$ (233,673)</u>	<u>\$ (108,991)</u>
 CASH FLOWS FROM INVESTING ACTIVITIES:		
Land Purchased for Development	\$ (35,448)	\$ (33,876)
Proceeds from Sale of Donated Home	-	119,818
Mortgage Payments Received	<u>131,487</u>	<u>46,992</u>
Net Cash Provided by (Used In) Investing Activities	<u>\$ 96,039</u>	<u>\$ 132,934</u>
 CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from Note Payable	\$ 87,000	\$ 80,000
Principal Payments on Note Payable	<u>(20,934)</u>	<u>(17,051)</u>
Net Cash Provided by Financing Activities	<u>\$ 66,066</u>	<u>\$ 62,949</u>
 NET INCREASE (DECREASE) IN CASH & CASH EQUIVALENTS	 <u>\$ (71,568)</u>	 <u>\$ 86,892</u>
Cash & Cash Equivalents, Beginning of Year	<u>227,108</u>	<u>140,216</u>
CASH & CASH EQUIVALENTS, END OF YEAR	<u><u>\$ 155,540</u></u>	<u><u>\$ 227,108</u></u>

The accompanying notes are an integral part of these financial statements

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of Organization

Habitat for Humanity of Itasca County, Inc. (the Organization) builds modest, affordable homes with volunteer labor, contributed materials and cash donations in the Itasca County area of northeast Minnesota. The Organization sells homes that it constructs interest free to families that would not ordinarily qualify for mortgages on the open market. Habitat for Humanity of Itasca County, Inc. was incorporated in September of 1992 in the State of Minnesota and is an affiliate of Habitat for Humanity International, Inc.

Habitat for Humanity of Itasca County, Inc. also operates a ReStore, which is a home improvement store selling used and surplus building materials. All profits from the ReStore go toward building Habitat for Humanity homes in the Itasca County area. The ReStore accepts donations of used or surplus materials and then resells them to the general public. The Organization began operating the ReStore in April of 2007.

Basis of Accounting

The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under the accrual basis of accounting, revenues are recorded as earned and expenses are recorded at the time liabilities are incurred.

Basis of Presentation

Habitat for Humanity of Itasca County, Inc. has adopted Statement of Financial Accounting Standards (SFAS) No. 116, *Accounting for Contributions Received and Contributions Made*, and Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. SFAS No. 117 establishes standards for external financial reporting by not-for-profit organizations and requires that resources be classified for accounting and reporting purposes according to externally (donor) imposed restrictions. SFAS No. 116 requires that unconditional promises to give be recorded as receivables and revenues and requires the organization to distinguish between contributions received for each net asset category in accordance with donor imposed restrictions. Accordingly, the net assets of the organization and changes therein are classified and reported based upon three classes of net assets; unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Habitat for Humanity of Itasca County, Inc. had no temporarily or permanently restricted net assets at June 30, 2009 or 2008.

Habitat for Humanity of Itasca County, Inc. has elected to present temporarily restricted contributions, which are fulfilled in the same time period, within the unrestricted net asset class.

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Cash & Cash Equivalents

Habitat for Humanity of Itasca County, Inc. considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Construction in Progress

Costs incurred in conjunction with home construction are capitalized until the completion of each home.

Home & Building Supplies Inventory

Building supplies consist of building supplies and materials that are not assigned to a specific project and are stated at the lower of cost (utilizing the first-in, first-out method) or market. Donations of building materials are recorded at their estimated fair value at the date of donation.

Land for Development

Land for development consists of property that the Organization intends to develop in the future as homes for qualifying families or individuals.

Mortgages Receivable

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or Habitat may accept back the deed in lieu of foreclosure where homeowner mortgage payments are deemed seriously delinquent. Properties acquired through foreclosure or accepting a deed in lieu of foreclosure may be sold directly on the open market, or refurbished in partnership with and sold to other families in need of decent, affordable housing.

Fixed Assets

Fixed assets are recorded at cost or estimated fair market value on the date received. Depreciation is computed using the straight-line method over the estimated useful lives of the assets, ranging from five to seven years.

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Contributions

Habitat for Humanity of Itasca County, Inc. records the value of contributed materials when there is an objective basis available to measure their value. Contributions of cash are recognized when the donor makes a promise to give that is, in substance, unconditional. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets depending on the nature of the restrictions. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. The Organization had no temporarily or permanently restricted net assets at June 30, 2009 and 2008.

Transfer to Homeowners

Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgages. Non-interest bearing mortgages have been discounted at various rates ranging from 6.0% to 9.0% based upon prevailing market rates at the inception of the mortgages. Discounts are amortized using the straight-line method over the lives of the mortgages.

Functional Expenses

Expenses have been classified by specific functions where ascertainable. Those expenses which cannot be specifically identified by function type have been allocated to functions based upon management's best estimate of usage.

Income Taxes

Habitat for Humanity of Itasca County, Inc. is a non-profit organization exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and state income taxes under Minnesota Statute 290.05. Habitat for Humanity of Itasca County, Inc. has also been classified as an entity that is not a private foundation within the meaning of Section 509(a) and qualifies for deductible contributions as provided in Section 170(b)(1)(A)(vi).

Donated Services

A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services. No amounts have been reflected in these financial statements as it is not practicable to estimate the fair value of those donated services.

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Concentration of Credit Risk

Mortgages receivable are subject to the risk that borrowers may not be able to make or complete payments for the entire term of the mortgage. Also, substantially all of the balances are receivable from individuals located within the same geographic region. Habitat for Humanity of Itasca County, Inc. manages this risk by educating the borrower in budget and credit management and by maintaining a first mortgage in the property.

Use of Estimates

The preparation of 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. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 CONSTRUCTION IN PROGRESS

Construction in progress includes direct material and labor costs, other costs incurred for construction, titling and conveyance costs. A summary of home building activity is as follows:

	<u>Number</u>	<u>Costs</u>
Construction in Progress, July 1, 2007	5	\$ 122,515
Additional Costs Incurred		158,262
New Homes Started During the Year	1	9,154
Homes Transferred During the Year	<u>(3)</u>	<u>(228,273)</u>
Construction in Progress, June 30, 2008	3	\$ 61,658
Additional Costs Incurred		227,743
New Homes Started During the Year	4	125,047
Homes Transferred During the Year	<u>(3)</u>	<u>(289,400)</u>
Construction in Progress, June 30, 2009	<u>4</u>	<u>\$ 125,048</u>

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2009 AND 2008

NOTE 3 MORTGAGES RECEIVABLE AT FAIR VALUE

Habitat for Humanity of Itasca County, Inc. currently holds twenty-three non-interest bearing mortgage loans. The mortgage loans are primarily for a period of twenty to thirty years. The mortgage loans also contain a second mortgage with a recapture agreement when the mortgagee sells a house before a prescribed time; usually ten years from the date of first occupancy. The recapture agreement states that the original purchaser of the home must pay a recapture amount to the Organization if the house sells during the first ten years of the first mortgage.

Mortgages receivable at fair value are summarized as follows:

Principal payments expected to be collected
in the year ending June 30:

2010	\$ 64,477
2011	64,477
2012	64,477
2013	64,477
2014	64,477
Thereafter	<u>990,800</u>
	\$ 1,313,185
Less unamortized discount	<u>(765,624)</u>
Mortgages Receivable at Fair Value	
June 30, 2009	<u><u>\$ 547,561</u></u>

NOTE 4 LINE OF CREDIT

The Organization has a revolving line of credit of \$30,000 with a bank. There was no balance outstanding on the line of credit at June 30, 2009 and 2008. The line is collateralized by a mortgage receivable held by the Organization. Interest on the line of credit is charged at a rate equal to the Wall Street Journal Prime Rate and is payable on a monthly basis.

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 5 NOTES PAYABLE AT FAIR VALUE

All non-interest bearing notes payable have been discounted based upon prevailing market rates at the inception of the note using the same discount rate utilized for non-interest bearing mortgages receivable. The discounts are recorded as contribution revenue when received and are amortized using the effective interest method over the life of the applicable note.

Notes Payable at Fair Value consist of the Following:

	2009	2008
Non-interest bearing note payable to Habitat for Humanity of Minnesota, Inc. As of June 30, 2008, the note was payable in monthly installments of \$1,366 and was secured by a pledge of six residential mortgages receivable. This note was rewritten during the year ended June 30, 2009 and is now payable in monthly installments of \$1,613 and is secured by a pledge of seven residential mortgages receivable.	\$ 423,854	\$ 354,482
Non-interest bearing notes payable to Habitat for Humanity International, Inc. Payable in monthly installments of \$285, unsecured.	6,340	4,146
	\$ 430,194	\$ 358,628
Less Current Maturities	(22,782)	(18,460)
	\$ 407,412	\$ 340,168
Discount on Non-Interest Bearing Notes Payable	(229,920)	(193,378)
Notes Payable at Fair Value		
- net of current maturities	\$ 177,492	\$ 146,790

HABITAT FOR HUMANITY OF ITASCA COUNTY, INC.
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2009 AND 2008

NOTE 5 NOTES PAYABLE AT FAIR VALUE (CONTINUED)

Note Payable Maturities are as Follows:

<u>Years Ending June 30,</u>	
2010	\$ 22,782
2011	20,719
2012	20,719
2013	19,524
2014	19,351
Thereafter	<u>327,099</u>
	\$ 430,194
Unamortized Discount	<u>(229,920)</u>
Notes Payable at Fair Value - 6/30/2009	<u><u>\$ 200,274</u></u>

NOTE 6 LEASE COMMITMENTS

During the year ended June 30, 2008 the organization leased office space on a month-to-month basis and space for the ReStore under a non-cancelable operating lease through April, 2010. During the year ended June 30, 2009, the Organization obtained a release from its lease for the ReStore space and was able to secure a five year lease on a location with space for the ReStore operation and the administrative offices. Rent expense (including common area maintenance charges) under these leases was \$64,607 and \$44,400 for the years ended June 30, 2009 and 2008, respectively.

Minimum future rental payments under non-cancelable operating leases as of June 30, 2009 are as follows:

<u>Years Ending June 30,</u>	
2010	\$ 55,200
2011	55,200
2012	55,200
2013	55,200
2014	<u>9,200</u>
Total Minimum Future Rental Payments	<u><u>\$ 230,000</u></u>