

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.

FINANCIAL STATEMENTS

FOR THE YEAR ENDED JUNE 30, 2006

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Independent Auditors' Report

The Board of Directors
Habitat for Humanity of Southwest Utah, Inc.
St. George, Utah

We have audited the accompanying statement of financial position of Habitat for Humanity of Southwest Utah, Inc. (Habitat) (a nonprofit organization) as of June 30, 2006, and the related statements of activities and cash flows for the year then ended. These financial statements are the responsibility of Habitat's management. Our responsibility is to express an opinion on these 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 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 as of June 30, 2006, and the changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated December 12, 2006 on our consideration of Habitat's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Our audit was made for the purpose of forming an opinion on the statements of financial position, activities and cash flows. The schedule of functional expenses is presented for purposes of additional analysis and is not a required part of the audited financial statements of Habitat. The totals in the schedule of functional expenses were subjected to the auditing procedures applied in the audit, but the allocation between programs was not audited.

Hinton, Burdick, Hall + Spilker PLLC
HINTON, BURDICK, HALL & SPILKER, PLLC
December 12, 2006

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Statement of Financial Position
As of June 30, 2006

ASSETS

Current assets

Cash and cash equivalents	\$ 40,623
Current portion of mortgages receivable	37,995
Prepaid expenses	569
Inventories	<u>3,152</u>

Total current assets 82,339

Fixed assets

Equipment	16,876
Accumulated depreciation	<u>(10,308)</u>

Total fixed assets 6,568

Other assets

Restricted cash and cash equivalents	32,714
Mortgages receivable, net of current portion	<u>295,250</u>

Total other assets 327,964

Total assets **\$ 416,871**

(Continued on next page)

The accompanying notes are an integral part of the financial statements.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Statement of Financial Position
As of June 30, 2006

LIABILITIES AND NET ASSETS

Current liabilities	
Interest payable	\$ 2,679
Escrow deposits payable	5,787
Payroll taxes payable	3,170
Notes payable, current portion	<u>24,340</u>
Total current liabilities	<u>35,976</u>
Long-term liabilities	
Notes payable, net of current portion	<u>163,144</u>
Total long-term liabilities	<u>163,144</u>
Total liabilities	<u>199,120</u>
Net assets	
Unrestricted	185,037
Temporarily restricted	32,714
Permanently restricted	<u>-</u>
Total net assets	<u>217,751</u>
Total liabilities and net assets	<u><u>\$ 416,871</u></u>

The accompanying notes are an integral part of the financial statements.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Statement of Activities
For the Year Ended June 30, 2006

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Revenues, gains and other support:				
Contributions	\$ 36,277	\$ 10,905	\$ -	\$ 47,182
Fund raising	44,976	-	-	44,976
Government grants	-	-	-	-
Donations-in-kind	13,080	-	-	13,080
Transfers to homeowners	97,000	-	-	97,000
Reimbursements	-	-	-	-
Other income	25,035	-	-	25,035
Net assets released from restrictions:				
Satisfaction of program restrictions	2,492	(2,492)	-	-
Total revenues, gains and other support	<u>218,860</u>	<u>8,413</u>	<u>-</u>	<u>227,273</u>
Expenses and losses:				
Program services	243,938	-	-	243,938
Management and general	28,411	-	-	28,411
Fund raising	14,926	-	-	14,926
Total expenses and losses	<u>287,275</u>	<u>-</u>	<u>-</u>	<u>287,275</u>
Change in net assets	<u>(68,415)</u>	<u>8,413</u>	<u>-</u>	<u>(60,002)</u>
Net assets at beginning of year	<u>253,452</u>	<u>24,301</u>	<u>-</u>	<u>277,753</u>
Net assets at end of year	<u>\$ 185,037</u>	<u>\$ 32,714</u>	<u>\$ -</u>	<u>\$ 217,751</u>

The accompanying notes are an integral part of the financial statements.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Statement of Cash Flows
For the Year Ended June 30, 2006

Cash flows from operating activities:	
Cash received from contributions and grants	\$ 47,182
Cash received from fund raising	44,976
Cash received from other activities	6,900
Payments for program services	(65,680)
Payments for management and general expenses	(24,797)
Payments for fund raising	(14,926)
Cash from prepaid expenses	1,916
Interest paid	<u>(2,247)</u>
Net cash flows from operating activities	<u>(6,676)</u>
Cash flows from investing activities:	
Payments received on mortgages receivable	32,459
Interest income	<u>387</u>
Net cash flows from investing activities	<u>32,846</u>
Cash flows from financing activities:	
Payments on long-term debt	<u>(25,747)</u>
Net cash flows from financing activities	<u>(25,747)</u>
Change in cash and cash equivalents	423
Cash and cash equivalents, beginning of year	<u>72,914</u>
Cash and cash equivalents, end of year	<u><u>\$ 73,337</u></u>

(Continued on next page)

The accompanying notes are an integral part of the financial statements.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Statement of Cash Flows
For the Year Ended June 30, 2006

**Reconciliation of change in net assets to net cash flows
from operating activities:**

Change in net assets	\$ (60,002)
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:	
Depreciation	3,614
Mortgage discount amortization	(17,748)
Transfers to homeowners	(97,000)
Discounts on new mortgages	48,700
Investment interest	(387)
Changes in operating assets and liabilities:	
Decrease/(Increase) in inventory	109,969
Decrease/(Increase) in prepaid expenses	1,916
Increase/(Decrease) in interest payable	2,013
Increase/(Decrease) in escrow deposits payable	608
Increase/(Decrease) in payroll taxes payable	1,641
Net cash flows from operating activities	\$ (6,676)

Supplemental Schedule of Non-cash Investing Activities

Disposal of obsolete assets	\$ 775
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The accompanying notes are an integral part of the financial statements.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Notes to the Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies

This summary of significant accounting policies of Habitat for Humanity of Southwest Utah, Inc. (Habitat) is presented to assist in understanding Habitat's financial statements. The financial statements and notes are representations of Habitat's management, which is responsible for their integrity and objectivity. The accounting principles conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Description of Program

Habitat for Humanity of Southwest Utah, Inc. is a non-profit corporation and is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian non-profit organization whose purposes are to partner with specific domestic and international habitat programs by constructing modest but adequate housing, and to associate with other organizations functioning with purposes consistent with those of Habitat. Habitat's goal is to eliminate poverty housing and homelessness worldwide and to stir the hearts and minds of others to take action on this issue.

Basis of Accounting

Habitat maintains its accounting records and prepares its financial statements, in all matters significant, in accordance with Statements of Financial Accounting Standards (SFAS) Nos. 116 and 117. SFAS No. 116 requires that income, including contributions, be recognized as income based upon an unconditional promise to give, and that expenses be recognized when incurred. In essence, this means that the financial statements are presented on the accrual basis of accounting. SFAS No. 117 prescribes the manner of display of information in the financial statements. This statement requires that net assets be classified as unrestricted, temporarily restricted, or permanently restricted. At June 30, 2006, Habitat had no permanently restricted net assets.

Cash and Cash Equivalents

For purposes of the statement of cash flows and footnote 2, Habitat considers all highly liquid cash assets with an original maturity of three months or less to be cash and cash equivalents.

Mortgages Receivable

Mortgages receivable consists of non-interest bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Notes to the Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies, Continued

Property and Equipment

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support 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 support. Absent donor stipulations regarding how long those donated assets must be maintained, Habitat reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Habitat reclassifies temporarily restricted net assets to unrestricted net assets at that time.

Depreciation of property and equipment is provided on the straight-line method over their estimated useful lives as follows:

Equipment	3-5 years
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Maintenance, repairs, and renewals, which neither materially add to the value of the property nor appreciably prolong its life, are charged to expense as incurred. Major renewals and betterments are capitalized.

Donated Services

A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time has been recognized as revenue and expense where the donated time represents specialized services requiring expertise in a particular area and where a value can be reasonably placed upon the service donated. In addition, Habitat receives donations of materials and the use of facilities or equipment that are recognized as both revenue and costs at fair value. A substantial amount of time has also been donated by volunteers who do not normally receive compensation for the particular type of services provided. The value of these contributions is not reflected in the financial statements.

Sales to Homeowners

Sales or transfers of homes, to homeowners are recorded at the gross mortgage amount. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as revenue (Mortgage Discount Amortization) over the term of the mortgage. At the inception of the mortgage, the discounted amount is recorded as a program service cost.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Notes to the Financial Statements
June 30, 2006

NOTE 1. Summary of Significant Accounting Policies, Continued

Home Construction Costs

Costs of homes constructed are recognized when incurred and are accumulated as Construction-in-Progress, an asset, until the homes are transferred to the homeowner. At that time the accumulated costs are charged to program service, along with the original mortgage discount. Indirect costs related to construction are charged to program service costs as incurred.

Income Taxes

Habitat has received exemption from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat for Humanity International by the Internal Revenue Service.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Temporarily Restricted Net Assets

The Washington County Board of Realtors (WCBR) has been contributing various amounts with the restriction that the funds donated will be used for a Habitat for Humanity house in the area when enough funds have been donated to complete a house. The WCBR temporarily restricted amount at June 30, 2006 is \$28,714.

An additional \$4,000 is temporarily restricted and June 30, 2006 for tithe purposes (see Note 3).

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Notes to the Financial Statements
June 30, 2006

NOTE 2. Cash and Cash Equivalents

At year end, the carrying amount of Habitat's deposits was \$73,137 and the bank balance was \$75,933. Of the bank balance, \$75,933 was covered by federal depositor insurance.

Habitat's deposits at year end are shown as follows:

	<u>Carrying Amount</u>
Cash on hand	\$ 200
Cash in bank	<u>73,137</u>
Total	<u>\$ 73,337</u>

Cash and cash equivalents are reported in the statement of financial position as follows:

Cash and cash equivalents	\$ 40,623
Restricted cash and cash equivalents	<u>32,714</u>
Total	<u>\$ 73,337</u>

NOTE 3. Tithe

Habitat annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International. These funds are used to construct homes in economically depressed areas around the world. For the year ended June 30, 2006, Habitat did not contribute to Habitat for Humanity International. However, Habitat did make a contribution early in fiscal year 2007.

NOTE 4. In-kind Contributions

In-kind contributions valued at fair value of \$13,080 were recorded during the current fiscal year and consisted mostly of construction materials and services and interest. Interest expense on zero-percent loans was valued at \$8,402 using an annual rate of seven percent applied to the average outstanding loan balances.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Notes to the Financial Statements
June 30, 2006

NOTE 5. Donated Inventory

Donated inventory consists of materials donated to the organization for use in future house construction. The account is adjusted to reflect contributions and uses of materials in the current period so the donated inventory is valued at fair value.

NOTE 6. Mortgages Receivable

Mortgages receivable at June 30, 2006 are as follows:

Mortgages receivable at face value		\$ 758,426	
Less unamortized discount		(425,181)	
	Total	<u>\$ 333,245</u>	

NOTE 7. Equipment

The following table summarizes the changes to fixed assets during the year ended June 30, 2006. Depreciation expense for the year ended June 30, 2006 was \$3,614.

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Disposals</u>	<u>Ending Balance</u>
Equipment	<u>\$ 17,651</u>	<u>\$ -</u>	<u>\$ 775</u>	<u>\$ 16,876</u>

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Notes to the Financial Statements
June 30, 2006

NOTE 8. Long-Term Debt

The following is a summary of long-term debt for the year ended June 30, 2006.

	<u>June 30, 2005</u>	<u>Additions</u>	<u>Retirements</u>	<u>June 30, 2006</u>
Notes Payable				
Utah State Division of Finance	\$ 99,855	\$ -	\$ 6,780	\$ 93,075
Habitat for Humanity International	57,323	-	7,967	49,356
Village Bank	27,500	-	11,000	16,500
TMB, LC	28,553	-	-	28,553
Total Notes Payable	\$ 213,231	\$ -	\$ 25,747	\$ 187,484

Long-term debt consists of the following:

<u>Notes Payable</u>	<u>Current</u>	<u>Long-Term</u>	<u>Total</u>
Various 0% notes payable to the Utah State Division of Finance, payable in varying monthly and quarterly payments with varying ending final payment dates.	\$ 7,080	\$ 85,995	\$ 93,075
8% note payable to TMB, LC, with interest only payments due each August. The principal balance and any unpaid accrued interest are due in August of 2008. Secured by two of the properties that were completed and sold by Habitat in previous years.	-	28,553	28,553
0% note payable to Village Bank, payable in monthly installment of \$750. The last principal payment will be made in June of 2008.	9,000	7,500	16,500
3.63% note payable to Habitat For Humanity International, payable in quarterly payments of \$2,485. The last payment will be made in December of 2011.	8,260	41,096	49,356
Total	\$ 24,340	\$ 163,144	\$ 187,484

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Notes to the Financial Statements
June 30, 2006

NOTE 8. Long-Term Debt, Continued

The annual amounts required to pay all long-term debt are as follows:

Fiscal Period Ending June 30	State of Utah		TMB, LC		Village Bank		HFH International	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	7,080	-	-	2,284	9,000	-	8,260	1,680
2008	7,080	-	-	2,284	7,500	-	8,564	1,376
2009	7,080	-	28,553	2,284	-	-	8,879	1,061
2010	7,080	-	-	-	-	-	9,206	734
2011	7,080	-	-	-	-	-	9,544	396
2012-2016	29,880	-	-	-	-	-	4,903	67
2017-2021	15,000	-	-	-	-	-	-	-
2022-2026	11,230	-	-	-	-	-	-	-
2027-2029	1,565	-	-	-	-	-	-	-
Total	\$ 93,075	\$ -	\$ 28,553	\$ 6,852	\$ 16,500	\$ -	\$ 49,356	\$ 5,314

NOTE 9. Subsequent Events

Habitat rents a storage shed in Washington City, Utah and sometime between November 16, 2006 and December 9, 2006, the unit was burglarized. Habitat estimates that \$22,000 worth of tools and supplies were stolen. Prior to the burglary, Habitat had recently received donated items for laying tile in a home the Organization is currently building.

HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2006

Expense category	Program Services	Management & General	Fund Raising	Total
House-building transfers	\$ 134,715	\$ -	\$ -	\$ 134,715
Discounts on mortgages	48,700	-	-	48,700
Tithe	1,037	-	-	1,037
Salaries and benefits	29,330	15,923	4,976	50,229
Depreciation	-	3,614	-	3,614
Food and lodging	898	78	37	1,013
Interest expense	12,662	-	-	12,662
Office expense	751	1,675	145	2,571
Rent	1,242	1,184	219	2,645
Professional services	1,564	4,250	-	5,814
Other	13,039	1,687	9,549	24,275
Total	\$ 243,938	\$ 28,411	\$ 14,926	\$ 287,275

The accompanying notes are an integral part of the financial statements.

**Independent Auditors' Report on Internal Control
Over Financial Reporting and on
Compliance and Other Matters
Based on an Audit of Financial Statements
Performed in Accordance with *Government Auditing Standards***

To the Board of Directors
Habitat for Humanity of Southwest Utah, Inc.
St. George, UT

We have audited the financial statements of Habitat for Humanity of Southwest Utah, Inc. (a non-profit organization) as of and for the year ended June 30, 2006, and have issued our report thereon dated December 12, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity of Southwest Utah, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Habitat for Humanity of Southwest Utah, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operations that we consider to be material weaknesses. However, we noted certain immaterial instances of weaknesses, which we have reported to management of Habitat for Humanity of Southwest Utah, Inc. in a separate letter dated December 12, 2006.

This report is intended solely for the information and use of the board of directors, management, others within the organization and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Hinton, Burdick, Hall & Spilker PLLC
HINTON, BURDICK, HALL & SPILKER, PLLC
December 12, 2006

Findings & Recommendations

To the Board of Directors
Habitat for Humanity of Southwest Utah, Inc.
St. George, UT

Ladies and Gentlemen:

During our audit of Habitat for Humanity of Southwest Utah, Inc. for the fiscal year ended June 30, 2006, we noted some areas that, if improved, would strengthen Habitat's accounting system and control over its assets. These items are discussed below for your consideration.

1. Donations In-kind

During our testwork, we noted that several in-kind donation entries were coded backwards. The donated services and supplies were recorded by debiting the revenue account and crediting the construction in progress account for the home. The in-kind donations should increase the revenue (credit) and increase the cost of the home (debit). Also noted again this year, that there were in-kind donations posted to the general ledger twice. Two different standard monthly entries to record imputed interest on interest-free loans were posted to the general ledger for part of the year.

Recommendation

We recommend that the Organization periodically review in-kind donation entries/detail for reasonableness and accuracy. We also recommend that the Organization communicate better when standard monthly entries change.

2. Cash Receipts Deposits

During our testwork, we noted that some of the Organization's cash receipts were not deposited in a timely manner. We noted that check dates on checks included in the same deposit were sometimes a week to two weeks apart.

Recommendation

We recommend that the Organization make more frequent deposits. A cash receipt should be deposited within three days of receipt, if not sooner.

This letter is intended solely for the use of the administrative board and management.

It has been a pleasure to be of service to Habitat this past year. We express special thanks to each of you who assisted us so efficiently in this year's audit. We invite you to ask questions of us throughout the year as you feel it is necessary. We look forward to a continued professional relationship.

Sincerely,

Hinton, Burdick, Hall & Spilker PLLC

HINTON, BURDICK, HALL & SPILKER, PLLC

December 12, 2006