

**HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.**

**FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED JUNE 30, 2007**

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**HINTONBURDICK**

HINTON BURDICK HALL & SPILKER PLLC

**CPAs & ADVISORS**

MEMBERS:

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DEAN R. BURDICK  
ROBERT S. COX  
TODD B. FELTNER  
BRENT R. HALL  
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MORRIS J. PEACOCK  
PHILLIP S. PEINE  
MICHAEL K. SPILKER  
MARK E. TICHENOR

**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, 2007, 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, 2007, 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 January 17, 2008 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  
January 17, 2008

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**HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.**  
**Statement of Financial Position**  
**As of June 30, 2007**

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**ASSETS**

**Current assets**

Cash and cash equivalents	\$ 64,390
Prepaid expenses	2,000
Current portion of mortgages receivable	41,597
Current portion of promises to give	11,850
Inventories	<u>41,515</u>

Total current assets 161,352

**Fixed assets**

Equipment	19,519
Accumulated depreciation	<u>(14,368)</u>

Total fixed assets 5,151

**Other assets**

Restricted cash and cash equivalents	10,954
Mortgages receivable, net of current portion	318,239
Promises to give, net of current portion	<u>20,487</u>

Total other assets 349,680

**Total assets** \$ 516,183

(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, 2007**

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**LIABILITIES AND NET ASSETS**

<b>Current liabilities</b>	
Accounts payable	\$ 817
Interest payable	4,949
Escrow deposits payable	6,115
Payroll taxes payable	1,803
Notes payable, current portion	<u>23,957</u>
Total current liabilities	<u>37,641</u>
<b>Long-term liabilities</b>	
Notes payable, net of current portion	<u>162,106</u>
Total long-term liabilities	<u>162,106</u>
Total liabilities	<u>199,747</u>
<b>Net assets</b>	
Unrestricted	273,145
Temporarily restricted	43,291
Permanently restricted	<u>-</u>
Total net assets	<u>316,436</u>
<b>Total liabilities and net assets</b>	<u><u>\$ 516,183</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, 2007**

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
<b>Revenues, gains and other support:</b>				
Contributions	\$ 113,233	\$ 24,620	\$ -	\$ 137,853
Fund raising	62,528	32,337	-	94,865
Donations-in-kind	36,543	-	-	36,543
Transfers to homeowners	125,000	-	-	125,000
Other income	27,926	-	-	27,926
Net assets released from restrictions:				
Satisfaction of program restrictions	46,380	(46,380)	-	-
 Total revenues, gains and other support	 411,610	 10,577	 -	 422,187
<b>Expenses and losses:</b>				
Program services	263,832	-	-	263,832
Management and general	36,055	-	-	36,055
Fund raising	23,615	-	-	23,615
 Total expenses and losses	 323,502	 -	 -	 323,502
 <b>Change in net assets</b>	 88,108	 10,577	 -	 98,685
 Net assets at beginning of year	 185,037	 32,714	 -	 217,751
 Net assets at end of year	 \$ 273,145	 \$ 43,291	 \$ -	 \$ 316,436

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, 2007**

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<b>Cash flows from operating activities:</b>	
Cash received from contributions and grants	\$ 137,853
Cash received from fund raising	62,528
Cash received from other activities	3,532
Payments for program services	(189,059)
Payments for management and general expenses	(28,471)
Payments for fund raising	(23,615)
Interest paid	<u>(1,677)</u>
Net cash flows from operating activities	<u>(38,909)</u>
<b>Cash flows from investing activities:</b>	
Payments received on mortgages receivable	44,549
Interest income	431
Purchases of fixed assets	<u>(2,643)</u>
Net cash flows from investing activities	<u>42,337</u>
<b>Cash flows from financing activities:</b>	
Proceeds from new long-term debt	30,000
Payments on long-term debt	<u>(31,421)</u>
Net cash flows from financing activities	<u>(1,421)</u>
<b>Change in cash and cash equivalents</b>	2,007
Cash and cash equivalents, beginning of year	<u>73,337</u>
<b>Cash and cash equivalents, end of year</b>	<u><u>\$ 75,344</u></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, 2007**

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

Change in net assets	\$ 98,685
Adjustments to reconcile change in net assets to net cash provided/(used) by operating activities:	
Depreciation	4,059
Mortgage discount amortization	(23,963)
Transfers to homeowners	(125,000)
Discounts on new mortgages	77,824
Investment interest	(431)
Changes in operating assets and liabilities:	
Decrease/(Increase) in inventory	(38,363)
Decrease/(Increase) in prepaid expenses	(1,431)
Decrease/(Increase) in promises to give	(32,337)
Increase/(Decrease) in accounts payable	817
Increase/(Decrease) in interest payable	2,270
Increase/(Decrease) in escrow deposits payable	328
Increase/(Decrease) in payroll taxes payable	(1,367)
	<hr/>
Net cash flows from operating activities	<u><u>\$ (38,909)</u></u>

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, 2007**

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**NOTE 1. Summary of Significant Accounting Policies**

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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, 2007, 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, 2007**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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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, 2007**

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**NOTE 1. Summary of Significant Accounting Policies, Continued**

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Home Construction Costs

Costs of homes constructed are recognized when incurred and are accumulated as construction-in-progress (included in inventory), 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, 2007 is \$10,954. The remaining balance in temporarily restricted net assets of \$32,337 relates to unconditional promises to give due in future years (see Note 7).

**HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.**  
**Notes to the Financial Statements**  
**June 30, 2007**

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**NOTE 2. Cash and Cash Equivalents**

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At year end, the carrying amount of Habitat's deposits was \$75,144 and the bank balance was \$77,298. Of the bank balance, \$77,298 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>75,144</u>
Total	<u>\$ 75,344</u>

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

Cash and cash equivalents	\$ 64,390
Restricted cash and cash equivalents	<u>10,954</u>
Total	<u>\$ 75,344</u>

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**NOTE 3. Tithe**

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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, 2007, Habitat contributed \$8,400 to Habitat for Humanity International.

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**NOTE 4. In-kind Contributions**

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In-kind contributions valued at fair value of \$36,543 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 \$7,440 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, 2007**

**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, 2007 are as follows:

Mortgages receivable at face value	\$ 838,877
Less unamortized discount	<u>(479,041)</u>
Total	359,836
Less current portion	<u>41,597</u>
Mortgage receivables, net of current portion	<u><u>\$ 318,239</u></u>

**NOTE 7. Promises to Give**

In fiscal year 2007, Habitat received a number of unconditional promises to give. These promises to give are recorded at their fair value using a discount rate of 8 percent (per SFAS No. 116). Habitat expects to collect the promises to give over the following years:

	2008	\$ 11,850
	2009	7,362
	2010	6,813
	2011	6,312
	Total	<u><u>\$ 32,337</u></u>
		\$ 11,850
		<u>20,487</u>
		<u><u>\$ 32,337</u></u>

As of June 30, 2007, an allowance for doubtful promises to give is not considered necessary as it is deemed to be immaterial.

**HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.**  
**Notes to the Financial Statements**  
**June 30, 2007**

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**NOTE 8.      Equipment**

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The following table summarizes the changes to fixed assets during the year ended June 30, 2007. Depreciation expense for the year ended June 30, 2007 was \$4,059.

	Beginning Balance	Additions	Disposals	Ending Balance
Equipment	\$ 16,876	\$ 2,643	\$ -	\$ 19,519

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**NOTE 9.      Long-Term Debt**

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The following is a summary of long-term debt for the year ended June 30, 2007.

	June 30, 2006	Additions	Retirements	June 30, 2007
Notes payable				
Utah State Division of Finance	\$ 93,075	\$ 30,000	\$ 14,870	\$ 108,205
Habitat for Humanity International	49,356	-	8,264	41,092
Village Bank	16,500	-	8,287	8,213
TMB, LC	28,553	-	-	28,553
Total notes payable	\$ 187,484	\$ 30,000	\$ 31,421	\$ 186,063

**HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.**  
**Notes to the Financial Statements**  
**June 30, 2007**

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**NOTE 9. Long-Term Debt, Continued**

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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.	\$ 7,180	\$ 101,025	\$ 108,205
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.	8,213	-	8,213
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.	<u>8,564</u>	<u>32,528</u>	<u>41,092</u>
Total	<u>\$ 23,957</u>	<u>\$ 162,106</u>	<u>\$ 186,063</u>

**HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.**  
**Notes to the Financial Statements**  
**June 30, 2007**

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**NOTE 9. Long-Term Debt, Continued**

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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
2008	\$ 7,180	\$ -	\$ -	\$ 2,284	\$ 8,213	\$ -	\$ 8,564	\$ 1,492
2009	7,680	-	28,553	2,284	-	-	8,879	1,181
2010	7,680	-	-	-	-	-	9,206	859
2011	7,680	-	-	-	-	-	9,545	524
2012	7,680	-	-	-	-	-	4,898	178
2013-2017	28,880	-	-	-	-	-	-	-
2018-2022	17,625	-	-	-	-	-	-	-
2023-2027	12,325	-	-	-	-	-	-	-
2028-2032	5,975	-	-	-	-	-	-	-
2033-2037	5,000	-	-	-	-	-	-	-
2038	500	-	-	-	-	-	-	-
<b>Total</b>	<b>\$ 108,205</b>	<b>\$ -</b>	<b>\$ 28,553</b>	<b>\$ 4,568</b>	<b>\$ 8,213</b>	<b>\$ -</b>	<b>\$ 41,092</b>	<b>\$ 2,742</b>

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**SUPPLEMENTARY INFORMATION**

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**HABITAT FOR HUMANITY OF SOUTHWEST UTAH, INC.**  
**Statement of Functional Expenses**  
**For the Year Ended June 30, 2007**

<u>Expense category</u>	<u>Program Services</u>	<u>Management &amp; General</u>	<u>Fund Raising</u>	<u>Total</u>
House-building transfers	\$ 123,808	\$ -	\$ -	\$ 123,808
Discounts on mortgages	77,824	-	-	77,824
Tithe	8,400	-	-	8,400
Salaries and benefits	34,553	17,981	5,759	58,293
Depreciation	-	4,059	-	4,059
Food and lodging	1,188	30	-	1,218
Interest expense	7,045	4,342	-	11,387
Office expense	1,347	1,895	170	3,412
Rent	2,195	1,098	366	3,659
Professional services	-	4,400	1,131	5,531
Other	7,472	2,250	16,189	25,911
<b>Total</b>	<u>\$ 263,832</u>	<u>\$ 36,055</u>	<u>\$ 23,615</u>	<u>\$ 323,502</u>

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

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**OTHER COMMUNICATIONS FROM INDEPENDENT AUDITORS**

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# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

**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, Utah

MEMBERS:

CHAD B. ATKINSON  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
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TODD B. FELTNER  
BRENT R. HALL  
KENNETH A. HINTON  
MORRIS J. PEACOCK  
PHILLIP S. PEINE  
MICHAEL K. SPILKER  
MARK E. TICHENOR

We have audited the basic financial statements of Habitat for Humanity of Southwest Utah, Inc. (a non-profit organization) as of and for the year ended June 30, 2007, and have issued our report thereon dated January 17, 2008. 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Habitat's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Habitat's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Habitat's internal control over financial reporting.

Our consideration of the internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiency described in the schedule of findings and recommendations dated January 17, 2008 to be a significant deficiency in internal control over financial reporting.

07-1 Segregation of Duties

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purposes described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described above is a material weakness.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Habitat'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*.

We noted certain other matters that we have reported to the management of the Habitat in a separate communication dated January 17, 2008.

This report is intended solely for the information of the board of directors, management and others within the organization 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  
January 17, 2008



# HINTONBURDICK

HINTON BURDICK HALL & SPILKER PLLC

CPAs & ADVISORS

## Findings & Recommendations For the Fiscal Year Ended June 30, 2007

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

Ladies and Gentlemen:

Professional standards require that we communicate, in writing, deficiencies in internal control over financial reporting that are considered significant deficiencies or material weaknesses that are identified during the audit of the financial statements. During our audit of Habitat for Humanity of Southwest Utah, Inc. for the fiscal year ended June 30, 2007, we noted an area that, if improved, would strengthen Habitat's accounting system and control over its assets. This item is discussed below for your consideration.

### INTERNAL CONTROL OVER FINANCIAL REPORTING:

#### Material Weaknesses:

None noted

#### Significant Deficiencies:

##### 07-01 Segregation of Duties

The organization's internal control process lacks a complete segregation of duties. One individual prepares bank reconciliations, prepares journal entries and posts journal entries into the accounting system. Furthermore, another individual has custody of cash, approves payments and signs checks (only signature required under \$2,000). We realize the organization is trying to find a bookkeeper, which will allow some of the duties to be segregated. Considering that the board reviews monthly reports, we don't deem this deficiency to be a material weakness.

#### Recommendation

The board of directors and management should consider ways that segregation of duties can be improved within the accounting and administrative functions as the organization continues to grow and additional staff are considered necessary. Also, the board should continue to review monthly reports for reasonableness.

#### MEMBERS:

CHAD B. ATKINSON  
KRIS J. BRAUNBERGER  
DEAN R. BURDICK  
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MORRIS J. PEACOCK  
PHILLIP S. PEINE  
MICHAEL K. SPILKER  
MARK E. TICHENOR

**COMPLIANCE AND OTHER MATTERS:**

**Compliance:**

None noted

**Other Matters:**

None noted

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  
January 17, 2008