

CINCINNATI HABITAT FOR HUMANITY

FINANCIAL REPORT

JUNE 30, 2008 AND 2007

CINCINNATI HABITAT FOR HUMANITY

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FLAGEL, HUBER, FLAGEL & Co.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Cincinnati Habitat for Humanity

We have audited the accompanying statements of financial position of Cincinnati Habitat for Humanity ("Habitat") (a not-for-profit corporation) as of June 30, 2008 and 2007, and the related statements of activities, and cash flows for the years then ended. These financial statements are the responsibility of Habitat management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we 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. We believe that our audits provide 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, 2008 and 2007, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplemental schedules of functional expenses are presented for the purpose of additional analysis and are not a required part of the basic financial statements. The supplemental schedules are the responsibility of Habitat management. The schedules have been subjected to the auditing procedures applied in our audits of the basic financial statements and, in our opinion, are fairly stated in all material respects when considered in relation to the basic financial statements taken as a whole.

RETIREE

Gerald P. Flagel
Arthur J. Huber
Louis G. Homan

DECEASED

David E. Flagel
1907-2007

Flagel, Huber, Flagel & Co.

Certified Public Accountants

Cincinnati, Ohio

January 12, 2009

CINCINNATI HABITAT FOR HUMANITY

STATEMENTS OF FINANCIAL POSITION

	JUNE 30,	
	<u>2008</u>	<u>2007</u>
ASSETS		
Cash and cash equivalents	\$ 654,876	\$ 503,361
Temporarily restricted cash and cash equivalents	198,437	137,737
Escrow cash	0	10,849
Temporarily restricted marketable securities	0	95,000
Pledges receivable	0	25,000
Temporarily restricted pledges receivable	131,599	24,500
Other receivables	14,325	4,935
Construction in progress - temporarily restricted	626,499	588,915
Homes available for sale	62,345	117,147
Non-interest bearing mortgage loans	6,070,817	5,579,816
Discount on non-interest bearing mortgage loans	(3,371,906)	(3,141,613)
Building supplies and materials	49,077	54,551
Land for development - temporarily restricted	90,445	102,188
Property and equipment, net of accumulated depreciation of \$256,219 and \$245,594 in 2008 and 2007, respectively	<u>47,865</u>	<u>50,480</u>
TOTAL ASSETS	<u><u>\$ 4,574,379</u></u>	<u><u>\$ 4,152,866</u></u>
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued expenses	\$ 155,637	\$ 90,163
Impounds	0	10,849
Bank line of credit	0	100,000
Note payable	<u>75,000</u>	<u>0</u>
TOTAL LIABILITIES	<u>230,637</u>	<u>201,012</u>
NET ASSETS		
Unrestricted	3,296,762	3,003,514
Temporarily restricted	<u>1,046,980</u>	<u>948,340</u>
TOTAL NET ASSETS	<u>4,343,742</u>	<u>3,951,854</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 4,574,379</u></u>	<u><u>\$ 4,152,866</u></u>

The accompanying notes are an integral part of these statements.

CINCINNATI HABITAT FOR HUMANITY

STATEMENTS OF ACTIVITIES

	FOR THE YEARS ENDED JUNE 30,	
	2008	2007
CHANGES IN UNRESTRICTED NET ASSETS		
Revenues and gains:		
Cash contributions	\$ 433,881	\$ 637,705
In-kind contributions	59,246	62,779
Transfers to homeowners	751,351	671,745
Other revenue	3,029	761
Mortgage loan discount amortization	168,403	183,893
Interest income	21,614	11,999
Net investment gain on real estate	11,617	0
Net investment loss on marketable securities	(641)	(3,266)
Total unrestricted revenues and gains	<u>1,448,500</u>	<u>1,565,616</u>
Satisfaction of program restrictions	<u>862,448</u>	<u>600,054</u>
Total support and revenues	<u>2,310,948</u>	<u>2,165,670</u>
Expenses and losses:		
Program services	1,701,321	1,501,448
Supporting services:		
Fund raising	138,466	93,552
Management and general	177,913	175,456
Total expenses and losses	<u>2,017,700</u>	<u>1,770,456</u>
Net change in unrestricted net assets	<u>293,248</u>	<u>395,214</u>
CHANGES IN TEMPORARILY RESTRICTED NET ASSETS		
Revenues and gains:		
Cash contributions	867,874	652,054
In-kind contributions	93,214	126,804
Total temporarily restricted revenues and gains	<u>961,088</u>	<u>778,858</u>
Net assets released from restrictions	<u>(862,448)</u>	<u>(600,054)</u>
Net change in temporarily restricted net assets	<u>98,640</u>	<u>178,804</u>
CHANGE IN NET ASSETS	391,888	574,018
NET ASSETS - beginning of year	<u>3,951,854</u>	<u>3,377,836</u>
NET ASSETS - end of year	<u><u>\$ 4,343,742</u></u>	<u><u>\$ 3,951,854</u></u>

The accompanying notes are an integral part of these statements.

CINCINNATI HABITAT FOR HUMANITY

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED

JUNE 30,

2008

2007

OPERATING ACTIVITIES:

Change in net assets	\$ 391,888	\$ 574,018
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Transfers to homeowners	(273,256)	(212,351)
Depreciation	10,625	32,240
Mortgage loan discount amortization	(168,403)	(183,893)
Net investment loss (gain) on real estate	(11,617)	0
Net investment loss on marketable securities	641	3,266
Effect of changes in assets and liabilities:		
Pledges receivable	(82,099)	(38,800)
Other receivables	(9,390)	33,664
Building supplies and materials	5,474	17,931
Accounts payable and accrued expenses	65,474	49,214
Deferred insurance proceeds	0	(21,530)
Impounds	(10,849)	10,849
Land for development	11,743	19,452
Construction in progress	(37,584)	(165,794)
Homes available for sale	54,802	115,584
NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES	<u>(52,551)</u>	<u>233,850</u>

The accompanying notes are an integral part of these statements.

CINCINNATI HABITAT FOR HUMANITY

STATEMENTS OF CASH FLOWS (CONTINUED)

	FOR THE YEARS ENDED JUNE 30,	
	<u>2008</u>	<u>2007</u>
INVESTING ACTIVITIES:		
Mortgage payments received	\$ 192,568	\$ 208,585
Proceeds from sale of marketable securities	134,892	330,508
Purchase and in-kind contributions of available for sale securities	(40,533)	(333,774)
Purchase and in-kind contributions of equipment	<u>(8,010)</u>	<u>(2,500)</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>278,917</u>	<u>202,819</u>
FINANCING ACTIVITIES:		
Proceeds from note payable	75,000	0
Repayment of bank line of credit	<u>(100,000)</u>	<u>0</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(25,000)</u>	<u>0</u>
NET CHANGE IN CASH AND TEMPORARILY RESTRICTED CASH	201,366	436,669
CASH AND TEMPORARILY RESTRICTED CASH:		
Beginning of year	<u>651,947</u>	<u>215,278</u>
End of year	<u>\$ 853,313</u>	<u>\$ 651,947</u>
SUPPLEMENTAL DISCLOSURES OF NON-CASH ACTIVITIES:		
Issuance of non-interest bearing mortgage loans	<u>\$ 684,259</u>	<u>\$ 442,587</u>
Discount on non-interest bearing mortgage loans	<u>\$ 398,696</u>	<u>\$ 316,959</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 273,256</u>	<u>\$ 212,351</u>

The accompanying notes are an integral part of these statements.

CINCINNATI HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

1. ORGANIZATION AND PURPOSE

Cincinnati Habitat for Humanity ("Habitat") (a not-for-profit corporation) was incorporated on January 14, 1986. Habitat is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"), a nondenominational Christian non-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Financial Statement Presentation

Habitat has adopted Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-for-Profit Organizations*. Under SFAS No. 117, Habitat is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets. Currently, there are no permanently restricted net assets. In addition, Habitat is required to present a statement of cash flows.

Cash and Cash Equivalents

Habitat considers cash and cash equivalents to be all highly liquid demand accounts that include checking, savings, and certificates of deposit.

Habitat also considers investments in money market funds to be cash equivalents. These funds are covered by the Securities Investor Protection Corporation (SIPC), and are insured in the event of fraudulent brokerage activity only and therefore, still carry a moderate level of risk. Cash and cash equivalents includes \$436,786 and \$295,515 of money market funds as of June 30, 2008 and 2007, respectively.

Escrow Cash

Habitat currently services the mortgages on the homes it sells. Included in escrow cash are amounts received for insurance and property taxes on such homes.

Concentration of Credit Risk

Habitat maintains its cash balances in various financial institution accounts, which at times, may exceed federally insured limits. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Inventory

Inventory is comprised of building materials not assigned to a specific project. Building supplies are stated at the lower of cost or market.

CINCINNATI HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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. Homes available for sale are stated at the lower of cost or market.

Contributions

Habitat has also adopted SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, whereby contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other 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, temporarily restricted net assets are reclassified to unrestricted net assets. Habitat currently has no permanently restricted funds.

Donated Services

Donated services are recognized as contributions in accordance with SFAS No. 116 if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat. Also, 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 is not reflected in these financial statements since it is not susceptible to objective measurement or valuation.

Transfers 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.

Investments

All investments are considered "available for sale" and are recorded at market value. Any unrealized gains or losses are reflected on the statements of activities.

CINCINNATI HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

Property and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Donated equipment is recorded at fair market value at the date of the gift. Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 5 to 15 years.

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 International by the Internal Revenue Service.

Home Construction Costs

Costs incurred in conjunction with home construction are capitalized until the completion of each home. Following is a summary of home building activity:

	<u>Number</u>	<u>Costs</u>
Homes under construction, July 1, 2006	10	\$ 423,121
Additional costs incurred on beginning inventory		357,542
New homes started during the year	11	364,646
Homes transferred during the year	<u>(7)</u>	<u>(556,394)</u>
Homes under construction, July 1, 2007	14	588,915
Additional costs incurred on beginning inventory		700,008
New homes started during the year	7	128,203
Homes transferred during the year	<u>(9)</u>	<u>(790,627)</u>
Homes under construction, June 30, 2008	<u>12</u>	<u>\$ 626,499</u>

Credit Risk - Mortgage Loans Receivable

Habitat's concentration of credit risk with respect to mortgage loans receivable depends on its partner families' ability to repay, which varies with economic conditions in this geographic area.

Estimates

The preparation of the financial statements in conformity with accounting principles generally accepted in the United States of America, requires management to make estimates and assumptions that effect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

CINCINNATI HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

3. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

COST:	<u>2 0 0 8</u>	<u>2 0 0 7</u>	<u>Estimated Useful Life in Years</u>
Construction equipment	\$ 112,061	\$ 112,061	5 – 7
Office equipment	110,923	106,273	5 – 15
Leasehold improvements	23,892	23,892	15
Warehouse	27,788	27,788	--
Vehicles	29,420	26,060	5
TOTAL	<u>304,084</u>	<u>296,074</u>	
Less accumulated depreciation	<u>(256,219)</u>	<u>(245,594)</u>	
	<u>\$ 47,865</u>	<u>\$ 50,480</u>	

4. LINE OF CREDIT

In July 2002, Habitat obtained a \$100,000 line of credit with Peoples Community Bank, with an initial term of one year and bore interest at prime plus one percent (1%). The prime rate was 5.00% and 8.25%, respectively, as of June 30, 2008 and 2007. The outstanding balance was \$0 and \$100,000, respectively, as of June 30, 2008 and 2007.

5. NOTE PAYABLE

In September, 2007 Habitat obtained an unsecured note payable with Peoples Community Bank in the amount of \$75,000. The initial interest rate was 8.75%. On November 1, 2007, and each first day of the month thereafter, the interest rate changed to the prime rate plus one percent (1%). However, the interest rate on the note cannot be less than 7.00%. The prime rate was 5.00% as of June 30, 2008. Habitat will make a balloon payment of principal and accrued interest on the maturity date of September 29, 2008. Peoples Community Bank has agreed to pay all accrued interest at maturity so long as the loan has not been in default during the term of the loan. Habitat is required to hold an operating account with Peoples Community Bank and maintain an average balance of \$20,000. The principal balance outstanding at June 30, 2008 was \$75,000.

6. LEASE COMMITMENTS

Habitat entered into a lease agreement for office and storage space with Covenant First Presbyterian Church. The term of the lease is fifteen (15) months through May 31, 2009. Thereafter, the lease shall renew year to year upon mutual agreement of the parties. Minimum future rental payments under the lease as of June 30, 2008 are \$9,900.

CINCINNATI HABITAT FOR HUMANITY

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2008 AND 2007

7. RETIREMENT PLAN

Habitat sponsors a Simplified Employee Pension Plan (SEP) and a 403(b) Plan for their employees. Employees contribute to the 403(b) Plan through payroll deduction. Habitat does not contribute to the 403(b) Plan; however, the organization contributes a discretionary amount each calendar year to the SEP. Employees do not have to participate in the 403(b) Plan in order to receive the SEP contribution. For the 2008 and 2007 calendar years ended, Habitat contributed \$13,942 and \$10,282, respectively, to the SEP.

8. TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2008 and 2007, Habitat contributed \$51,008 and \$41,821, respectively, to Habitat International. Such amounts are included in program services expense in the Statements of Activities.

9. INVESTMENT SECURITIES

Investments as of June 30, 2008 and 2007 are stated at fair value, respectively. All investments are included in temporarily restricted net assets and are summarized as follows:

	<u>2 0 0 8</u>		<u>2 0 0 7</u>	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Corporate bonds	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 95,000</u>	<u>\$ 95,000</u>

Investment returns on these investments are summarized as follows:

	<u>2 0 0 8</u>	<u>2 0 0 7</u>
Interest income	<u>\$ 433</u>	<u>\$ 5,090</u>

CINCINNATI HABITAT FOR HUMANITY

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2008

	Program Services		Supporting Services		TOTAL
	Construction	Discounts on Mortgage Originations	Fund Raising	Management and General	
Salaries and benefits	\$ 290,505	\$ 0	\$ 75,979	\$ 80,447	\$ 446,931
Building materials and supplies	859,062	0	0	0	859,062
Building services	30,744	0	0	0	30,744
Depreciation	5,313	0	0	5,312	10,625
Mortgage discounts	0	398,696	0	0	398,696
Vehicles	9,907	0	582	1,166	11,655
Rent	5,400	0	540	4,860	10,800
Utilities	5,329	0	533	4,796	10,658
Publicity	9,272	0	55,636	27,817	92,725
Special projects	60,702	0	0	0	60,702
Printing and postage	981	0	1,307	981	3,269
Professional fees	0	0	0	22,857	22,857
Insurance	7,047	0	0	7,047	14,094
Interest expense	0	0	0	7,223	7,223
Travel and entertainment	2,491	0	830	830	4,151
Office supplies	14,633	0	2,439	7,317	24,389
Education	1,239	0	620	1,239	3,098
Other	0	0	0	6,021	6,021
	<u>\$ 1,302,625</u>	<u>\$ 398,696</u>	<u>\$ 138,466</u>	<u>\$ 177,913</u>	<u>\$ 2,017,700</u>
Portion of above expenditures supported by in-kind contributions	<u>\$ 93,214</u>	<u>\$ 0</u>	<u>\$ 35,548</u>	<u>\$ 23,698</u>	<u>\$ 152,460</u>

CINCINNATI HABITAT FOR HUMANITY

SUPPLEMENTAL SCHEDULE OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED JUNE 30, 2007

	Program Services		Supporting Services		TOTAL
	Construction	Discounts on Mortgage Originations	Fund Raising	Management and General	
Salaries and benefits	\$ 264,134	\$ 0	\$ 69,080	\$ 73,145	\$ 406,359
Building materials and supplies	748,659	0	0	0	748,659
Building services	38,521	0	0	0	38,521
Depreciation	16,120	0	0	16,120	32,240
Mortgage discounts	0	316,959	0	0	316,959
Vehicles	9,370	0	551	1,102	11,023
Rent	10,800	0	1,080	9,720	21,600
Utilities	4,398	0	440	3,959	8,797
Publicity	3,044	0	18,262	9,131	30,437
Special projects	61,671	0	0	0	61,671
Printing and postage	630	0	840	630	2,100
Professional fees	0	0	0	26,640	26,640
Insurance	9,829	0	0	9,830	19,659
Interest expense	0	0	0	9,188	9,188
Travel and entertainment	1,566	0	522	521	2,609
Office supplies	15,292	0	2,549	7,646	25,487
Education	455	0	228	455	1,138
Other	0	0	0	7,369	7,369
	<u>\$ 1,184,489</u>	<u>\$ 316,959</u>	<u>\$ 93,552</u>	<u>\$ 175,456</u>	<u>\$ 1,770,456</u>
Portion of above expenditures supported by in-kind contributions	<u>\$ 126,804</u>	<u>\$ 0</u>	<u>\$ 37,667</u>	<u>\$ 25,112</u>	<u>\$ 189,583</u>