

PINELLAS HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

AND

***REPORT OF INDEPENDENT
CERTIFIED PUBLIC ACCOUNTANTS***

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29750 U.S. Hwy. 19 North, Suite 101
Clearwater, FL 33761

INDEPENDENT AUDITORS' REPORT

Board of Directors
Pinellas Habitat for Humanity, Inc.

We have audited the accompanying statements of financial position of Pinellas Habitat for Humanity, Inc. (a nonprofit organization) as of June 30, 2006 and 2005, 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. 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 for June 30, 2006 and 2005; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States for June 30, 2006 only. 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 Pinellas Habitat for Humanity, Inc. as of June 30, 2006 and 2005, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 2, 2006, on our consideration of the Organization's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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.

Clearwater, Florida
November 2, 2006

PINELLAS HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<u>ASSETS</u>		
Cash	\$ 1,430,431	\$ 1,233,718
Cash – temporarily restricted	199,504	43,500
Assets held in escrow	49,797	46,916
Non-interest bearing residential mortgage loans, net of unamortized discounts of \$887,293 and \$1,156,926	626,180	844,957
Homes in foreclosure	-	30,620
Unconditional promises to give, net	135,490	40,515
Habitat Outlet inventory	63,287	43,316
Homes under construction	387,890	446,927
Homes awaiting closing	102,154	102,133
Land for future construction	1,151,643	444,275
Real estate held for investment or resale	158,098	-
Property and equipment, net	129,852	87,126
Beneficial interest in assets held by others	20,000	-
Deferred affordable housing note receivable	350,000	-
Other assets	<u>42,932</u>	<u>53,027</u>
Total Assets	<u>\$ 4,847,258</u>	<u>\$ 3,417,030</u>
<u>LIABILITIES AND NET ASSETS</u>		
Liabilities		
Accounts payable	\$ 75,142	\$ 12,743
Accrued expenses	15,582	44,405
Due to Northern Trust Bank	1,472	-
Escrow deposits	68,498	69,268
Down payments and advance payments	6,000	8,000
Note payable	273,000	273,000
Deferred affordable housing note payable	<u>350,000</u>	<u>-</u>
Total liabilities	789,694	407,416
Net Assets		
Unrestricted	3,659,817	2,874,614
Temporarily restricted	377,747	135,000
Permanently restricted	<u>20,000</u>	<u>-</u>
Total net assets	<u>4,057,564</u>	<u>3,009,614</u>
Total Liabilities and Net Assets	<u>\$ 4,847,258</u>	<u>\$ 3,417,030</u>

See accompanying notes to financial statements

PINELLAS HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2006

Support and Revenue	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Contributions				
Building materials and services	\$ -	\$ 96,680	\$ -	\$ 96,680
Cash	779,600	444,551	-	1,224,151
Habitat Outlet merchandise	312,211	-	-	312,211
In-kind	3,900	-	-	3,900
Land	26,300	-	-	26,300
Transfers to homeowners	717,581	-	-	717,581
Mortgage discount amortization	42,915	-	-	42,915
Sales – Habitat Outlet	292,240	-	-	292,240
Special events	26,442	-	-	26,442
Grants	350,000	-	-	350,000
Other	60,175	-	-	60,175
Net assets released from restrictions	<u>298,484</u>	<u>(298,484)</u>	<u>-</u>	<u>-</u>
Total support and revenue	2,909,848	242,747	-	3,152,595
Expenses				
Program				
Construction and mortgage discounts	1,793,617	-	-	1,793,617
Habitat Outlet	513,986	-	-	513,986
Supporting services				
General and administrative	117,562	-	-	117,562
Fundraising	<u>119,432</u>	<u>-</u>	<u>-</u>	<u>119,432</u>
Total expenses	<u>2,544,597</u>	<u>-</u>	<u>-</u>	<u>2,544,597</u>
Change in net assets before other changes	365,251	242,747	-	607,998
Other Changes				
Transfer in beneficial interest in assets held by others	(20,000)	-	20,000	-
Gain on sale of mortgages	<u>439,952</u>	<u>-</u>	<u>-</u>	<u>439,952</u>
Total other changes	<u>419,952</u>	<u>-</u>	<u>20,000</u>	<u>439,952</u>
Change in net assets	785,203	242,747	20,000	1,047,950
Net Assets at Beginning of Year	<u>2,874,614</u>	<u>135,000</u>	<u>-</u>	<u>3,009,614</u>
Net Assets at End of Year	<u>\$ 3,659,817</u>	<u>\$ 377,747</u>	<u>\$ 20,000</u>	<u>\$ 4,057,564</u>

See accompanying notes to financial statements

PINELLAS HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2005

Support and Revenue	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Contributions			
Building materials and services	\$ -	\$ 120,185	\$ 120,185
Cash	456,962	196,515	653,477
Habitat Outlet merchandise	214,690	-	214,690
Realty – for sale	27,603	-	27,603
In-kind – other	3,900	-	3,900
Land	42,000	-	42,000
Transfers to homeowners	754,096	-	754,096
Mortgage discount amortization	54,266	-	54,266
Sales – Habitat Outlet	176,371	-	176,371
Special event	26,096	-	26,096
Gain on foreclosures	34,425	-	34,425
Gain on disposal of assets	1,050	-	1,050
Other	26,082	-	26,082
Net assets released from restrictions	<u>478,704</u>	<u>(478,704)</u>	<u>-</u>
Total support and revenue	2,296,245	(162,004)	2,134,241
Expenses			
Program			
Construction and mortgage discounts	1,844,242	-	1,844,242
Habitat Outlet	333,487	-	333,487
Supporting services			
General and administrative	91,835	-	91,835
Fundraising	<u>84,683</u>	<u>-</u>	<u>84,683</u>
Total expenses	<u>2,354,247</u>	<u>-</u>	<u>2,354,247</u>
Change in net assets before other changes	(58,002)	(162,004)	(220,006)
Other Changes			
Gain on sale of mortgages	<u>315,017</u>	<u>-</u>	<u>315,017</u>
Change in net assets	257,015	(162,004)	95,011
Net Assets at Beginning of Year	<u>2,617,599</u>	<u>297,004</u>	<u>2,914,603</u>
Net Assets at End of Year	<u>\$ 2,874,614</u>	<u>\$ 135,000</u>	<u>\$ 3,009,614</u>

See accompanying notes to financial statements

PINELLAS HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2006

	Program Services				Supporting Services			Total
	Construction	Mortgage Discounts	Habitat Outlet	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 261,621	\$ -	\$ 113,672	\$ 375,293	\$ 39,764	\$ 93,876	\$ 133,640	\$ 508,933
Contributed services	-	-	-	-	-	-	-	-
Building materials and supplies	897,968	-	-	897,968	-	-	-	897,968
Insurance and taxes	8,965	-	-	8,965	3,781	2,268	6,049	15,014
Repairs and maintenance	5,339	-	-	5,339	-	-	-	5,339
Depreciation and amortization	13,450	-	4,635	18,085	9,369	-	9,369	27,454
Mortgage discounts	-	293,152	-	293,152	-	-	-	293,152
Office supplies, equipment, and utilities	42,651	-	17,091	59,742	4,072	6,087	10,159	69,901
Printing and advertising	3,931	-	9,054	12,985	524	6,533	7,057	20,042
Travel	35,814	-	21,057	56,871	351	397	748	57,619
Legal and accounting	3,431	-	-	3,431	32,891	592	33,483	36,914
Loss on sale of real estate	3,069	-	-	3,069	-	-	-	3,069
Other	16,701	-	297,240	313,941	21,251	4,966	26,217	340,158
Rent	74,374	-	51,237	125,611	5,559	4,713	10,272	135,883
Repayments of proceeds on foreclosures	15,349	-	-	15,349	-	-	-	15,349
Bad debt expense	40,515	-	-	40,515	-	-	-	40,515
Subsidy of escrow costs	7,042	-	-	7,042	-	-	-	7,042
Support of Habitat for Humanity International	70,245	-	-	70,245	-	-	-	70,245
	<u>\$ 1,500,465</u>	<u>\$ 293,152</u>	<u>\$ 513,986</u>	<u>\$ 2,307,603</u>	<u>\$ 117,562</u>	<u>\$ 119,432</u>	<u>\$ 236,994</u>	<u>\$ 2,544,597</u>

See accompanying notes to financial statements

PINELLAS HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2005

	Program Services				Supporting Services			Total
	Construction	Mortgage Discounts	Habitat Outlet	Total Program Services	General and Administrative	Fundraising	Total Supporting Services	
Salaries and benefits	\$ 240,548	\$ -	\$ 89,999	\$ 330,547	\$ 38,349	\$ 50,910	\$ 89,259	\$ 419,806
Contributed services	5,000	-	-	5,000	-	-	-	5,000
Building materials and supplies	1,069,098	-	-	1,069,098	-	-	-	1,069,098
Insurance and taxes	14,000	-	-	14,000	822	3,170	3,992	17,992
Repairs and maintenance	2,134	-	546	2,680	281	-	281	2,961
Depreciation and amortization	10,579	-	3,850	14,429	7,507	-	7,507	21,936
Mortgage discounts	-	336,095	-	336,095	-	-	-	336,095
Office supplies, equipment, and utilities	38,500	-	15,192	53,692	5,232	8,663	13,895	67,587
Printing and advertising	2,448	-	10,964	13,412	466	10,987	11,453	24,865
Travel	25,606	-	5,612	31,218	64	85	149	31,367
Legal and accounting	2,992	-	202	3,194	10,773	405	11,178	14,372
Loss on sale of real estate	6,825	-	-	6,825	-	-	-	6,825
Other	19,230	-	177,122	196,352	20,101	6,701	26,802	223,154
Rent	46,529	-	30,000	76,529	8,240	3,762	12,002	88,531
Support of Habitat for Humanity International	24,658	-	-	24,658	-	-	-	24,658
	<u>\$ 1,508,147</u>	<u>\$ 336,095</u>	<u>\$ 333,487</u>	<u>\$ 2,177,729</u>	<u>\$ 91,835</u>	<u>\$ 84,683</u>	<u>\$ 176,518</u>	<u>\$ 2,354,247</u>

See accompanying notes to financial statements

PINELLAS HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<i>Cash Flows from Operating Activities</i>		
Change in net assets	\$ 1,047,950	\$ 95,011
<i>Adjustments to reconcile change in net assets to cash used in operating activities</i>		
Depreciation	27,454	21,936
Amortization of mortgage discounts	(42,915)	(54,266)
Mortgage discounts retired	(110,273)	(103,643)
Net gain on mortgages sold	(439,952)	(315,017)
New mortgages transferred to owners	(325,131)	(267,627)
Loss on disposal of real estate	3,069	5,275
Loss on property sold for tax certificates	-	1,550
Gain on disposal of assets	-	(1,050)
Gain on foreclosures	-	(34,425)
Delinquent escrows	2,881	(22,351)
<i>Decrease (increase) in:</i>		
Unconditional promises to give	(94,975)	(40,515)
Habitat Outlet inventory	(19,971)	(38,316)
Homes under construction	59,037	28,826
Homes awaiting closing	(21)	28,562
Land for future construction	(718,377)	16,172
Escrow cash	(2,881)	9,084
Other assets	10,095	(10,036)
<i>Increase (Decrease) in:</i>		
Accounts payable	62,399	(7,763)
Accrued expenses	(28,823)	13,514
Due to Northern Trust Bank	1,472	(737)
Escrow deposits	(770)	13,268
Down payments and advance payments	<u>(2,000)</u>	<u>(3,020)</u>
<i>Net cash used in operating activities</i>	(571,732)	(665,568)

See accompanying notes to financial statements

PINELLAS HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

YEARS ENDED JUNE 30, 2006 AND 2005

	<u>2006</u>	<u>2005</u>
<i>Cash Flows from Investing Activities</i>		
Net proceeds (purchases) on sale of real estate held for construction or resale	11,009	4,218
Purchases of equipment	(70,180)	(74,501)
Proceeds from sale of equipment	-	1,050
Proceeds from mortgages sold	719,258	568,949
Repayments (proceeds) from foreclosures	(15,349)	86,000
Payments received on mortgages	<u>279,711</u>	<u>261,736</u>
<i>Net cash provided by investing activities</i>	<u>924,449</u>	<u>847,452</u>
<i>Net Increase in Cash</i>	352,717	181,884
<i>Cash at Beginning of Year</i>	<u>1,277,218</u>	<u>1,095,334</u>
<i>Cash at End of Year</i>	<u>\$ 1,629,935</u>	<u>\$ 1,277,218</u>

Supplemental Disclosures of Noncash Activities:

Issuance of non-interest bearing mortgage loans	<u>\$ 640,466</u>	<u>\$ 707,365</u>
Discount on newly issued non-interest bearing mortgage loans	<u>\$ 315,335</u>	<u>\$ 439,738</u>
Transfers of property to homeowners	<u>\$ 717,581</u>	<u>\$ 754,096</u>
Homes in foreclosure	<u>\$ -</u>	<u>\$ 30,620</u>
Donated land	<u>\$ 26,300</u>	<u>\$ 42,000</u>

See accompanying notes to financial statements

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

Pinellas Habitat for Humanity, Inc. (Habitat) (a not-for-profit organization) was incorporated in January 1985. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian not-for-profit organization whose mission is to share the gospel of Jesus Christ through the ministry of home building; to the end that all persons of all races, classes, and faiths work in partnership to eradicate poverty housing, change lives, and build community. 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.

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. **Basis of Presentation**

Financial statement presentation follows the recommendation of the Financial Accounting Standards Board (FASB) Statement of Financial Accounting Standards (SFAS) No. 117, *Financial Statements of Not-For-Profit Organizations*. Under those provisions, net assets and revenues, gains, and losses are classified based on the absence or existence and nature of donor-imposed restrictions as follows:

- Unrestricted Net Assets – Net assets that are not subject to donor-imposed stipulations.
- Temporarily Restricted Net Assets – Net assets subject to donor-imposed stipulations that can be fulfilled by actions of the organization pursuant to those stipulations or that expire by the passage of time.
- Permanently Restricted Net Assets – Net assets subject to donor-imposed stipulations that they be maintained permanently by the organization. Generally, the donors of such assets permit the organization to use all or part of the income earned on the assets.

2. **Cash**

Cash consists of cash on deposit with financial institutions and money market mutual fund accounts.

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

3. **Assets Held in Escrow**

Habitat currently services the mortgages on the homes it sells. Included in assets held in escrow are cash amounts received for insurance and property taxes on such homes. These cash amounts are recorded as an asset offset by a related liability.

4. **Home Construction Costs**

Costs incurred in conjunction with home construction, excluding labor, are expensed when the home is transferred to the homeowner. The following is a summary of home building activity:

<u>2006</u>	<u>Number</u>	<u>Costs</u>
Homes under construction July 1, 2005	14	\$ 446,927
Additional costs incurred on beginning inventory	-	614,065
Other costs and transfers (net)	(2)	(3,298)
New homes started during the year	12	164,395
Homes transferred during the year	(8)	(885,184)
Contributed services and materials on homes under construction	-	50,985
	<u>16</u>	<u>\$ 387,890</u>

<u>2005</u>	<u>Number</u>	<u>Costs</u>
Homes under construction July 1, 2004	24	\$ 477,303
Additional costs incurred on beginning inventory	-	940,797
Other costs and transfers (net)	(4)	(2,530)
New homes started during the year	5	2,001
Homes transferred during the year	(11)	(1,010,299)
Contributed services and materials on homes under construction	-	39,655
	<u>14</u>	<u>\$ 446,927</u>

5. **Property and Equipment**

Property and equipment are recorded at acquisition cost, including costs necessary to prepare the asset for its intended use. Depreciation expense is provided on a straight-line basis over the estimated useful lives of the assets ranging from 5 – 7 years.

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

5. **Property and Equipment – Continued**

Maintenance and repairs are charged to expense as incurred, while renewals and betterments in excess of \$500 are capitalized. Gains and losses on sales are credited or charged to operations in the year of sale.

6. **Other Assets**

Other assets consist mainly of other receivables, refundable deposits, and amounts due from the escrow cash account.

Amounts due from escrow cash at June 30, 2005 included amounts transferred from operating cash to the escrow cash account to cover temporary deficiencies due to delinquent escrow payments from homeowners. The amounts were returned to operating cash during the fiscal year ended June 30, 2006.

7. **Habitat Outlet Inventory**

Habitat Outlet inventory includes donated household building materials, appliances, and furniture that are sold at the Habitat Outlet in St. Petersburg, Florida. Merchandise is recorded at its estimated fair market value.

8. **Promises to Give**

Contributions are recognized when the donor makes a promise to give to Habitat that is, in substance, unconditional. Unconditional contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal 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, or when a pledge becomes due, temporarily restricted net assets are reclassified to unrestricted net assets.

Habitat uses the allowance method to determine uncollectible unconditional promises. The allowance is based on prior years' experience and management's analysis of specific promises made. At June 30, 2006, \$40,515 was deemed uncollectible and written off to bad debt expense. No allowance was booked at June 30, 2006. At June 30, 2005, all promises to give are expected to be collected.

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

9. **Mortgage Loans**

Mortgage loans consist of non-interest bearing mortgages secured by real estate and payable in monthly installments over the life of the mortgage. Past due and delinquent mortgage loans are assessed at the discretion of the Board of Directors.

10. **Due to Northern Trust**

Due to Northern Trust represents remittances from Northern Trust mortgagees for mortgages previously sold to Northern Trust and serviced by Habitat per the sale agreement (*See Note K*).

11. **Revenue Recognition**

Contributions received are recorded as increases in unrestricted, temporarily restricted, or permanently restricted net assets, depending on the existence and/or nature of any donor restrictions.

All donor-restricted contributions are reported as increases in temporarily or permanently restricted net assets, depending on the nature of the restriction. When a restriction expires (that is, when a stipulated time restriction ends or the purpose of the restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

12. **Donated Services**

Statement of Financial Accounting Standards No. 116 requires the recognition of contributed services that enhance non-financial assets. As such, donated services used in building the homes are reflected as contributed services of approximately \$90,640 in income of which \$50,985 is temporarily restricted in homes under construction at June 30, 2006. At June 30, 2005, contributed services are reflected as \$112,635 in income, of which \$39,655 is temporarily restricted in homes under construction.

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

13. ***Transfers to Homeowners***

Transfers to homeowners are recorded at the gross mortgage amount plus down payment received. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages, as provided by Habitat International. Utilizing the effective interest method, this discount will be recognized as interest income over the term of the mortgage.

14. ***Advertising Costs***

Advertising costs are expensed as incurred and were approximately \$5,300 and \$7,000 for the years ended June 30, 2006 and 2005, respectively.

15. ***Income Taxes***

Habitat is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code under a group exemption letter granted to Habitat International.

16. ***Use of Estimates***

The preparation of financial statements in conformity with U.S. 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.

17. ***Fair Value of Financial Instruments***

Habitat's financial instruments include cash, mortgages receivable, accounts payable, and a note payable. The carrying values of financial instruments approximate their respective fair values at June 30, 2006 and 2005.

18. ***Reclassification***

Certain amounts in the 2005 financial statements have been reclassified to be comparable to the 2006 financial statements. The reclassification had no effect on the change in net assets for the years ended June 30, 2006 and 2005, respectively.

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – CONTINUED

19. **Beneficial Interest in Assets Held by Others**

In 2006, Habitat established endowment accounts with the Pinellas County Community Foundation (PCCF) in the amount of \$10,000 and Tampa Bay Community Foundation (TBCF) in the amount of \$10,000. This total amount of \$20,000 is considered an asset (beneficial interest in assets held by others) of Habitat and is included in the accompanying statements of financial position as of June 30, 2006 as both an asset and a permanently restricted net asset. Although Habitat does not have the right to receive the endowment assets per the Trust Agreements, the contribution to these endowment funds is considered an asset of Habitat as it has been named beneficiary. Earnings on the endowment funds, net of any service fees, will be periodically distributed to Habitat in accordance with the agreement. Habitat has not received any earnings on the endowments during the year.

NOTE B – PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	<u>2006</u>	<u>2005</u>
Vehicles	\$ 76,019	\$ 49,649
Furniture and fixtures	10,153	6,455
Leasehold improvements	35,381	16,705
Signage	12,309	12,309
Construction equipment	33,521	20,725
Office equipment	<u>34,529</u>	<u>26,470</u>
	201,912	132,313
Less accumulated depreciation	<u>(72,060)</u>	<u>(45,187)</u>
	<u>\$ 129,852</u>	<u>\$ 87,126</u>

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE C – PROMISES TO GIVE

Unconditional promises to give consist of the following at June 30:

	<u>2006</u>	<u>2005</u>
Unrestricted promises to give	\$ 152,252	\$ 42,500
Gross unconditional promises to give		42,500
Less: Unamortized discount	<u>(16,762)</u>	<u>(1,985)</u>
Net unconditional promises to give	<u>\$ 135,490</u>	<u>\$ 40,515</u>
Amounts due in:		
Less than one year	\$ 45,092	
One to five years	90,398	
Thereafter	<u>-</u>	
	<u>\$ 135,490</u>	

For June 30, 2006 and 2005, unconditional promises to give due in more than one year are reflected at the present value of estimated future cash flows using a discount rate of 5.07% and 3.21%, respectively.

NOTE D – TRANSACTIONS WITH HABITAT INTERNATIONAL

Habitat remits a portion of its contributions (excluding in-kind contributions) to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2006 and 2005, Habitat contributed \$70,245 and \$24,658, respectively, to Habitat International. These amounts are included in program services expense in the statements of activities.

NOTE E – CONCENTRATIONS OF CREDIT RISK

From time to time throughout the years ending June 30, 2006 and 2005, Habitat's cash balance may have exceeded the federally insured limit of \$100,000. Habitat had approximately \$143,000 and \$871,000 deposited in cash and money market funds which were not FDIC insured for the years ended June 30, 2006 and 2005, respectively.

All of Habitat's mortgage loans are to low income individuals and are secured by real estate located in Pinellas County, Florida.

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE F – LONG-TERM DEBT

Long-term debt consists of the following:

Mortgage payable to a bank, balloon payment due April 25, 2008 including interest paid quarterly beginning July 25, 2005 at 5.75% until maturity, collateralized by a first mortgage on land and improvements	\$ 273,000	\$ 273,000
Less: Current maturities	_____ -	_____ -
Mortgage payable, net	<u>\$ 273,000</u>	<u>\$ 273,000</u>

Debt maturities for the next five fiscal years are as follows:

<u>Year Ended</u> <u>June 30,</u>	<u>Amount</u>
2007	\$ -
2008	273,000
2009	-
2010	-
2011 and thereafter	_____ -
	<u>\$ 273,000</u>

NOTE G – TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets consist of cash available for the following homes and donated labor and materials on homes under construction:

<u>Cash</u>	<u>2006</u>
Palmetto Street	\$ 18,665
843 15 th Avenue Street	53,822
675 6 th Avenue North	7,000
1450 12 th Street South	54,565
3466 19 th Avenue South	33,750
Home in a box – cash	19,122
Home in a box – investments	<u>12,580</u>
	199,504

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE G – TEMPORARILY RESTRICTED NET ASSETS – CONTINUED

Promises to Give

Unconditional promises to give, net 127,258

Donated Labor and Materials

1818 20 th Street South	5,665
3875 8 th Avenue South	5,665
701 15 th Avenue South	5,665
843 15 th Avenue South	11,330
416 29 th Street South	5,665
675 6 th Avenue North	5,665
507 Disston	<u>11,330</u>
	<u>50,985</u>

\$ 377,747

2005

Cash

2921 Freemont Terrace	\$ 22,500
1508 Preston	20,000
Family Services Coordinator salary	<u>1,000</u>
	43,500

Promises to Give

Unconditional promises to give, net 40,515

Donated Labor and Materials

3818 29 th Avenue	11,330
2921 Freemont Terrace	5,665
1136 Engman	11,330
4887 163 rd Avenue	11,330
4897 163 rd Avenue	<u>11,330</u>
	<u>50,985</u>

\$ 135,000

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE H – NET ASSETS RELEASED FROM RESTRICTIONS

Net assets released from restrictions were comprised of the following:

	<u>2006</u>
2921 Freemont Terrace	\$ 41,085
1508 Preston	48,585
3818 29 th Avenue	18,585
1136 Engman	12,085
4887 163 rd Avenue	12,085
4897 163 rd Avenue	12,085
759 15 th Avenue South	37,085
908 Palmetto	12,085
Flag kits	150
Home in a box	5,059
Pledges receivable	74,931
Family services coordination salary	1,000
Building materials	50
Tools	1,000
Capacity Building Grant	<u>22,614</u>
	<u>\$ 298,484</u>
	 <u>2005</u>
7801 53 rd Way (formerly 5313 78 th Way)	\$ 70,085
7825 53 rd Way (formerly 5313 78 th Way)	67,085
2880 6 th Avenue	72,085
909 Metto Street	72,085
1700 20 th Street	12,019
1240 Melrose	12,085
1136 13 th Avenue	6,420
2849 6 th Avenue	34,585
1032 Melrose	17,085
2967 Fairfield	57,085
612 Grosse	12,085
Tools	1,000
Capacity Building Grant	<u>45,000</u>
	<u>\$ 478,704</u>

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE I – LEASES

Habitat began leasing its 118th Avenue facility in August 2004. The lease requires monthly rental payments through October 2009. Habitat also continues to lease its Starkey Road facility on a month-to-month basis. Total rent expense was \$131,600 and \$89,000 for the years ended June 30, 2006 and 2005, respectively. Habitat also leases office equipment with a term of 60 months. Total lease expense for this leased equipment was \$4,400 for each of the years ended June 30, 2006 and 2005.

Based on the terms of the agreements, the minimum payments due on all leases are as follows:

<i>Year Ended</i> <u>June 30,</u>	<u>Amount</u>
2007	\$ 116,963
2008	119,712
2009	123,303
2010	127,002
2011 and thereafter	<u>97,379</u>
	<u>\$ 584,359</u>

NOTE J – PRONTO AGREEMENTS

Habitat offers Payment Rendered On-Time Opportunities (PRONTO agreements) to mortgagees who have defaulted on their mortgages. In exchange for regular payments for twelve months, Habitat agrees not to seek to foreclose on the mortgage. If the mortgagee is successful in making all the agreed upon payments in full and on time, the mortgage will be modified so that the term is extended. In effect, the amount in arrears is added to the end of the mortgage. At June 30, 2006, there were 19 agreements in effect. The total delinquent mortgage and escrow payments included in those agreements was approximately \$42,000 at June 30, 2006. At June 30, 2005, there were 21 agreements in effect. The total delinquent mortgage and escrow payments included in those agreements was approximately \$40,000 at June 30, 2005.

NOTE K – SALE OF MORTGAGES

On June 1, 2006, Habitat entered into a loan sale and servicing agreement with Northern Trust Bank of Florida N.A. (NTB). Under the agreement, Habitat transferred and assigned rights to thirteen non-interest bearing residential mortgage loans, but must service the loans for the remainder of the mortgage terms. NTB paid Habitat 86.5% of the outstanding principal. The total proceeds on the transaction were \$719,258. After closing the unamortized discounts and mortgages, the net gain on the transaction was \$439,952.

PINELLAS HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006 AND 2005

NOTE K – SALE OF MORTGAGES – CONTINUED

On June 14, 2005, Habitat entered into a loan sale and servicing agreement with NTB. Under the agreement, Habitat transferred and assigned rights to fifteen non-interest bearing residential mortgage loans, but must service the loans for the remainder of the mortgage terms. NTB paid Habitat 86.5% of the outstanding principal. The total proceeds on the transaction were \$568,949. After closing the unamortized discounts and mortgages, the net gain on the transaction was \$315,017.

NOTE L – GRANTS

On June 15, 2006, Habitat was awarded a Community Development Block Grant from Pinellas County, Florida in the amount of \$350,000. Under the Grant, Habitat shall acquire 2.5 acres of land in Dunedin, Florida for the future construction of at least eighteen affordable homeownership housing units. Both an asset and a corresponding liability of \$350,000 have been recorded on the June 30, 2006 statement of financial position in order to record the associated promissory note.



29750 U.S. Hwy. 19 North, Suite 101
Clearwater, FL 33761

***REPORT ON COMPLIANCE AND ON INTERNAL CONTROL
OVER FINANCIAL REPORTING BASED ON AN AUDIT
OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS***

Board of Directors
Pinellas Habitat for Humanity, Inc.

We have audited the financial statements of Pinellas Habitat for Humanity, Inc. (the “Organization”) as of and for the year ended June 30, 2006, and have issued our report thereon dated November 2, 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.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Organization’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 would not necessarily disclose all matters in 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 operation that we consider to be material weaknesses.

We noted certain matters that we reported to management of the Organization in a separate letter dated November 2, 2006.

Compliance

As part of obtaining reasonable assurance about whether the Organization’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 that are required to be reported under *Government Auditing Standards*.

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

Clearwater, Florida
November 2, 2006