

**HABITAT FOR HUMANITY OF  
MISSOULA, INC.**

Missoula, Montana

**AUDITED CONSOLIDATED FINANCIAL STATEMENTS  
AND INDEPENDENT AUDITORS' REPORT**

For the Years Ended  
June 30, 2007 and 2008

HABITAT FOR HUMANITY OF MISSOULA, INC.

June 30, 2007 and 2008

TABLE OF CONTENTS

|   |             |
|---|-------------|
| List of Board Members   | Page 1      |
| Independent Auditors' Report  | Page 2      |
| Consolidated Financial Statements   |             |
| Consolidated Statement of Financial Position<br>As of June 30, 2007                             | Page 3      |
| Consolidated Statement of Financial Position<br>As of June 30, 2008                             | Page 4      |
| Consolidated Statement of Activities<br>For the Six-Month Period Ended June 30, 2007            | Page 5      |
| Consolidated Statement of Activities<br>For the Twelve-Month Period Ended June 30, 2008         | Page 6      |
| Consolidated Statement of Functional Expense<br>For the Six-Month Period Ended June 30, 2007    | Page 7      |
| Consolidated Statement of Functional Expense<br>For the Twelve-Month Period Ended June 30, 2008 | Page 8      |
| Consolidated Statement of Cash Flows<br>For the Six-Month Period Ended June 30, 2007            | Page 9      |
| Consolidated Statement of Cash Flows<br>For the Twelve-Month Period Ended June 30, 2008         | Page 10     |
| Notes to Consolidated Financial Statements  | Pages 11-19 |

HABITAT FOR HUMANITY OF MISSOULA, INC.

June 30, 2007 and 2008

LIST OF BOARD MEMBERS

For the Years Ended June 30,

| <u>2007</u>          |                                 | <u>2008</u>          |
|----------------------|---------------------------------|----------------------|
| Jeff Roth            | President                       | Jeff Roth            |
| Cindy Klette         | Vice President                  | Bob Brewer           |
| John Mudd            | Vice President -2 <sup>nd</sup> | Cindy Klette         |
| Gay Peterson         | Treasurer                       | Gay Peterson         |
| Debbie Wilcox        | Secretary                       | Debbie Wilcox        |
| Dave Chrismon        | Executive Director              | Dave Chrisman        |
| Cindy Bartling       | Member                          | Cindy Bartling       |
| Bob Brewer           | Member                          | Rob Fleming          |
| Alice Dailey         | Member                          | Alice Dailey         |
| John Drake           | Member                          | John Drake           |
| Scott Johnson        | Member                          | Scott Johnson        |
| Spencer MacDonald    | Member                          | Spencer MacDonald    |
| Laura Pengelly Drake | Member                          | Laure Pengelly Drake |
| Chuck Williford      | Member                          | Gerhardt Knudson     |
|                      | Member                          | Becky Weaver         |

## INDEPENDENT AUDITORS' REPORT

Board of Directors  
Habitat for Humanity of Missoula, Inc.  
PO Box 7181  
Missoula, MT 59807

We have audited the accompanying consolidated statements of financial position of Habitat for Humanity of Missoula, Inc. (Habitat) as of June 30, 2007 and 2008, and the related consolidated statements of activities, functional expenses, and cash flows for the six-month and twelve-month periods 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 overall 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 2008, and the changes in its net assets and its cash flows for the six-month and twelve-month periods then ended in conformity with accounting principles generally accepted in the United States of America.

Cote & Wheeler, CPAs PLLC  
Missoula, MT  
October 24, 2008

# HABITAT FOR HUMANITY OF MISSOULA, INC.

## Consolidated Statement of Financial Position As of June 30, 2007

|  |                            |
|--|----------------------------|
| <b>ASSETS</b>                                    |                            |
| Current assets                                   |                            |
| Cash and cash equivalents                        |                            |
| Habitat for Humanity of Missoula, Inc.           | \$ 124,773                 |
| Partnership Condominium Association              | <u>2,499</u>               |
| Total cash and cash equivalents                  | 127,272                    |
| Accounts and other receivables                   | 1,742                      |
| Current portion of mortgages receivable (note 9) | 54,728                     |
| Prepaid expenses (note 5)                        | 3,131                      |
| Investments (note 6)                             | 200,000                    |
| Home construction-in-progress                    |                            |
| Land   | 167,998                    |
| Dwelling   | <u>141,671</u>             |
| Total construction-in-progress                   | 309,669                    |
| Total current assets                             | <u>\$ 696,542</u>          |
| Homes for resale                                 | \$ -                       |
| Property and equipment (note 7)                  | \$ 15,441                  |
| Accumulated depreciation                         | <u>(8,925)</u>             |
| Total property and equipment                     | \$ 6,516                   |
| Mortgage receivables (note 9)                    |                            |
| Face amount of mortgages                         | \$ 1,066,188               |
| Discount to estimated fair value                 | <u>(682,973)</u>           |
| Mortgage receivables net                         | \$ 383,215                 |
| <b>TOTAL ASSETS</b>                              | <b><u>\$ 1,086,273</u></b> |
| <b>LIABILITIES</b>                               |                            |
| Liabilities                                      |                            |
| Current liabilities                              |                            |
| Accounts payable and accrued liabilities         | \$ 25,964                  |
| Current portion of notes payable                 | 3,232                      |
| Prepaid mortgage liability (note 11)             | 4,777                      |
| Deferred revenue (note 12)                       | <u>30,334</u>              |
| Total current liabilities                        | <u>\$ 64,307</u>           |
| Long term notes payable (note 13)                |                            |
| Face amount of notes payable                     | \$ 4,519                   |
| Adjustment to estimated fair value               | <u>(1,077)</u>             |
| Notes payable net                                | \$ 3,442                   |
| <b>TOTAL LIABILITIES</b>                         | <b><u>\$ 67,749</u></b>    |
| <b>NET ASSETS</b>                                |                            |
| Unrestricted net assets                          | <u>\$ 1,018,524</u>        |
| <b>TOTAL NET ASSETS</b>                          | <b><u>\$ 1,018,524</u></b> |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>          | <b><u>\$ 1,086,273</u></b> |

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

# HABITAT FOR HUMANITY OF MISSOULA, INC.

## Consolidated Statement of Financial Position As of June 30, 2008

|  |                                   |
|--|-----------------------------------|
| ASSETS   |                                   |
| Current assets                                   |                                   |
| Cash and cash equivalents                        |                                   |
| Habitat for Humanity of Missoula, Inc.           | \$ 244,264                        |
| Partnership Condominium Association              | 2,626                             |
| Total cash and cash equivalents                  | <u>246,890</u>                    |
| Accounts and other receivables                   | 451                               |
| Short term note receivable ( note 4)             | 214                               |
| Current portion of mortgages receivable (note 9) | 60,404                            |
| Prepaid expenses (note 5)                        | 2,629                             |
| Investments (note 6)                             | 200,000                           |
| Home construction-in-progress                    |                                   |
| Land   | 165,000                           |
| Dwelling   | 121,223                           |
| Total construction-in-progress                   | <u>286,223</u>                    |
| Total current assets                             | <u>\$ 549,921</u>                 |
| Homes for resale                                 | \$ 63,263                         |
| Property and equipment (note 7)                  | \$ 18,255                         |
| Accumulated depreciation                         | (10,511)                          |
| Total property and equipment                     | <u>\$ 7,744</u>                   |
| Mortgage receivables (note 9)                    |                                   |
| Face amount of mortgages                         | \$ 1,103,926                      |
| Discount to estimated fair value                 | (709,428)                         |
| Mortgage receivables net                         | <u>\$ 394,498</u>                 |
| <b>TOTAL ASSETS</b>                              | <b><u><u>\$ 1,262,316</u></u></b> |
| LIABILITIES                                      |                                   |
| Liabilities                                      |                                   |
| Current liabilities                              |                                   |
| Accounts payable and accrued liabilities         | \$ 17,818                         |
| Current portion of notes payable                 | 1,152                             |
| Prepaid mortgage liability (note 11)             | 1,500                             |
| Deferred revenue (note 12)                       | 29,012                            |
| Total current liabilities                        | <u>\$ 49,482</u>                  |
| Long-term liabilities                            |                                   |
| Compensated absences                             | \$ 6,192                          |
| Long-term notes payable (note 13)                |                                   |
| Face amount of notes payable                     | 3,357                             |
| Adjustment to estimated fair value               | (702)                             |
| Notes payable net                                | <u>\$ 2,655</u>                   |
| <b>TOTAL LIABILITIES</b>                         | <b><u><u>\$ 58,329</u></u></b>    |
| NET ASSETS                                       |                                   |
| Unrestricted net assets                          | <u>\$ 1,203,987</u>               |
| <b>TOTAL NET ASSETS</b>                          | <b><u><u>\$ 1,203,987</u></u></b> |
| <b>TOTAL LIABILITIES AND NET ASSETS</b>          | <b><u><u>\$ 1,262,316</u></u></b> |

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

HABITAT FOR HUMANITY OF MISSOULA, INC.

Consolidated Statement of Activities  
For the Six-Month Period Ended June 30, 2007

|   |                            |
|---|----------------------------|
| UNRESTRICTED NET ASSETS                         |                            |
| REVENUES  |                            |
| Donations                                       |                            |
| Cash  | \$ 77,676                  |
| Grants  | 137,092                    |
| In-kind services and materials                  | 86,554                     |
| Special events (net of costs)                   | 3,263                      |
| Total donations                                 | \$ 304,585                 |
| New partner home sales                          | \$ -                       |
| Mortgage discount amortization                  | 15,005                     |
| Interest earnings                               | 7,561                      |
| Partnership condominium association assessments | 2,772                      |
| Other income                                    | 751                        |
| TOTAL UNRESTRICTED REVENUES                     | \$ <u>330,674</u>          |
| EXPENSES  |                            |
| Program services                                |                            |
| Cost of partner homes sold                      | \$ 7,491                   |
| Mortgage discount expense                       | -                          |
| Other   | 50,745                     |
| Total program services                          | \$ 58,236                  |
| Support services                                |                            |
| Management and general                          | \$ 16,454                  |
| Fundraising                                     | 17,345                     |
| Total support services                          | \$ 33,799                  |
| Partnership condominium association             | \$ 1,692                   |
| TOTAL UNRESTRICTED EXPENSES                     | \$ <u>93,727</u>           |
| CHANGE IN UNRESTRICTED NET ASSETS               | \$ 236,947                 |
| NET ASSETS - Beginning of year                  | \$ <u>781,577</u>          |
| NET ASSETS - End of year                        | \$ <u><u>1,018,524</u></u> |

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

Habitat for Humanity of Missoula, Inc.

Consolidated Statement of Activities  
For the Twelve-Month Period Ended June 30, 2008

UNRESTRICTED NET ASSETS

REVENUES

|   |                   |
|---|-------------------|
| Donations                                       |                   |
| Cash  | \$ 146,280        |
| Grants  | 196,666           |
| In-kind services and materials                  | 108,780           |
| Special events (net of costs)                   | <u>15,587</u>     |
| Total donations                                 | \$ 467,313        |
| <br>  |                   |
| New partner home sales                          | \$ 381,747        |
| Mortgage discount amortization                  | 70,229            |
| Interest earnings                               | 15,220            |
| Partnership condominium association assessments | 5,016             |
| Other income                                    | 7,460             |
| <br>  |                   |
| TOTAL UNRESTRICTED REVENUES                     | <u>\$ 946,985</u> |

EXPENSES

|                                     |                   |
|-------------------------------------|-------------------|
| Program services                    |                   |
| Cost of partner homes sold          | \$ 484,339        |
| Mortgage discount expense           | 96,683            |
| Other                               | <u>112,443</u>    |
| Total program services              | \$ 693,465        |
| <br>                                |                   |
| Support services                    |                   |
| Management and general              | \$ 33,390         |
| Fundraising                         | <u>29,638</u>     |
| Total support services              | \$ 63,028         |
| <br>                                |                   |
| Partnership condominium association | \$ 5,029          |
| <br>                                |                   |
| TOTAL UNRESTRICTED EXPENSES         | <u>\$ 761,522</u> |

|                                   |                            |
|-----------------------------------|----------------------------|
| CHANGE IN UNRESTRICTED NET ASSETS | \$ 185,463                 |
| <br>                              |                            |
| NET ASSETS - Beginning of year    | <u>\$ 1,018,524</u>        |
| <br>                              |                            |
| NET ASSETS - End of year          | <u><u>\$ 1,203,987</u></u> |

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

Habitat for Humanity of Missoula, Inc.

Consolidated Statement of Functional Expense  
For the Six-Month Period Ended June 30, 2007

| UNRESTRICTED EXPENSE              | Program Services              |                      |                  | Support Services        |                  | Partnership                | Total            |
|-----------------------------------|-------------------------------|----------------------|------------------|-------------------------|------------------|----------------------------|------------------|
|                                   | Cost of Partner<br>Homes Sold | Mortgage<br>Discount | Other            | Management<br>& General | Fundraising      | Condominium<br>Association |                  |
| Accounting fees                   | \$ -                          | \$ -                 | \$ 1,468         | \$ 830                  | \$ 894           | \$ -                       | \$ 3,192         |
| Advertising                       | -                             | -                    | -                | 508                     | 836              | -                          | 1,344            |
| Audit fees                        | -                             | -                    | 1,978            | 1,118                   | 1,204            | -                          | 4,300            |
| Bank fees                         | -                             | -                    | -                | 5                       | -                | -                          | 5                |
| Cans for habitat                  | -                             | -                    | 45               | -                       | -                | -                          | 45               |
| Conference and seminars           | -                             | -                    | -                | 1,050                   | -                | -                          | 1,050            |
| Construction                      | 7,491                         | -                    | -                | -                       | -                | -                          | -                |
| Depreciation                      | -                             | -                    | 1,056            | 60                      | 65               | -                          | 1,181            |
| Discount expense                  | -                             | -                    | -                | -                       | -                | -                          | -                |
| Disposal                          | -                             | -                    | -                | -                       | -                | 553                        | 553              |
| Dues and subscriptions            | -                             | -                    | 251              | 142                     | 153              | -                          | 546              |
| Insurance                         | -                             | -                    | 365              | 206                     | 222              | 1,055                      | 1,848            |
| Interest expense                  | -                             | -                    | -                | -                       | -                | -                          | -                |
| Legal fees                        | -                             | -                    | -                | -                       | -                | -                          | -                |
| Licenses                          | -                             | -                    | 7                | 4                       | 4                | 15                         | 30               |
| Mission specific costs            | -                             | -                    | 4,667            | -                       | -                | -                          | 4,667            |
| Office supplies                   | -                             | -                    | 2,747            | 1,553                   | 1,672            | -                          | 5,972            |
| Payroll taxes                     | -                             | -                    | 1,518            | 858                     | 924              | -                          | 3,300            |
| Postage and shipping              | -                             | -                    | 356              | 201                     | 498              | -                          | 1,055            |
| Printing and publications         | -                             | -                    | 898              | -                       | 191              | -                          | 1,089            |
| Repairs and maintenance           | -                             | -                    | -                | -                       | -                | 69                         | 69               |
| Rent                              | -                             | -                    | 1,028            | 581                     | 626              | -                          | 2,235            |
| Salaries                          | -                             | -                    | 15,874           | 8,972                   | 9,662            | -                          | 34,508           |
| Telephone                         | -                             | -                    | 648              | 366                     | 394              | -                          | 1,408            |
| Tithe expense                     | -                             | -                    | 12,214           | -                       | -                | -                          | 12,214           |
| Travel                            | -                             | -                    | -                | -                       | -                | -                          | -                |
| Tools                             | -                             | -                    | -                | -                       | -                | -                          | -                |
| Youth court                       | -                             | -                    | 5,625            | -                       | -                | -                          | 5,625            |
| <b>TOTAL UNRESTRICTED EXPENSE</b> | <b>\$ 7,491</b>               | <b>\$ -</b>          | <b>\$ 50,745</b> | <b>\$ 16,454</b>        | <b>\$ 17,345</b> | <b>\$ 1,692</b>            | <b>\$ 86,236</b> |

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

Habitat for Humanity of Missoula, Inc.

Consolidated Statement of Functional Expense  
For the Twelve-Month Period Ended June 30, 2008

| UNRESTRICTED EXPENSE              | Program Services              |                      |                   | Support Services        |                  | Partnership                | Total             |
|-----------------------------------|-------------------------------|----------------------|-------------------|-------------------------|------------------|----------------------------|-------------------|
|                                   | Cost of Partner<br>Homes Sold | Mortgage<br>Discount | Other             | Management<br>& General | Fundraising      | Condominium<br>Association |                   |
| Accounting fees                   | \$ -                          | \$ -                 | \$ 3,405          | \$ 2,270                | \$ 1,891         | \$ -                       | \$ 7,566          |
| Advertising                       | -                             | -                    | 3,271             | 2,181                   | 1,817            | -                          | 7,269             |
| Audit fees                        | -                             | -                    | 225               | 150                     | 125              | -                          | 500               |
| Bank fees                         | -                             | -                    | -                 | 3                       | -                | -                          | 3                 |
| Cans for habitat                  | -                             | -                    | -                 | -                       | -                | -                          | -                 |
| Conference and seminars           | -                             | -                    | 272               | 181                     | 151              | -                          | 604               |
| Construction                      | 484,339                       | -                    | -                 | -                       | -                | -                          | 484,339           |
| Depreciation                      | -                             | -                    | 1,278             | 168                     | 140              | -                          | 1,586             |
| Disposal                          | -                             | -                    | -                 | -                       | -                | 1,025                      | 1,025             |
| Discount expense                  | -                             | 96,683               | -                 | -                       | -                | -                          | 96,683            |
| Dues and subscriptions            | -                             | -                    | 94                | 63                      | 52               | -                          | 209               |
| Insurance                         | -                             | -                    | 864               | 576                     | 480              | 2,278                      | 4,198             |
| Interest expense                  | -                             | -                    | -                 | -                       | -                | -                          | -                 |
| Legal fees                        | -                             | -                    | 10,500            | -                       | -                | -                          | 10,500            |
| Licenses                          | -                             | -                    | 31                | 20                      | 17               | 15                         | 83                |
| Mission specific costs            | -                             | -                    | 6,477             | -                       | -                | -                          | 6,477             |
| Office supplies                   | -                             | -                    | 2,525             | 1,684                   | 1,403            | -                          | 5,612             |
| Payroll taxes                     | -                             | -                    | 2,269             | 1,787                   | 1,595            | -                          | 5,651             |
| Postage and shipping              | -                             | -                    | 580               | 387                     | 851              | -                          | 1,818             |
| Printing and publications         | -                             | -                    | 2,463             | 1,642                   | 1,368            | -                          | 5,473             |
| Rent                              | -                             | -                    | 2,023             | 1,349                   | 1,124            | -                          | 4,496             |
| Repairs and maintenance           | -                             | -                    | -                 | -                       | -                | 576                        | 576               |
| Salaries                          | -                             | -                    | 25,713            | 20,181                  | 18,000           | -                          | 63,894            |
| Telephone                         | -                             | -                    | 1,081             | 721                     | 601              | -                          | 2,403             |
| Tithe expense                     | -                             | -                    | 20,295            | -                       | -                | -                          | 20,295            |
| Travel                            | -                             | -                    | 41                | 27                      | 23               | -                          | 91                |
| Tools                             | -                             | -                    | -                 | -                       | -                | -                          | -                 |
| Utilities                         | -                             | -                    | -                 | -                       | -                | 1,135                      | 1,135             |
| Youth court                       | -                             | -                    | 29,036            | -                       | -                | -                          | 29,036            |
| <b>TOTAL UNRESTRICTED EXPENSE</b> | <b>\$ 484,339</b>             | <b>\$ 96,683</b>     | <b>\$ 112,443</b> | <b>\$ 33,390</b>        | <b>\$ 29,638</b> | <b>\$ 5,029</b>            | <b>\$ 761,522</b> |

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

Habitat for Humanity of Missoula, Inc.

Consolidated Statement of Cash Flows  
For the Six-Month Period Ended June 30, 2007

|  |                    |
|--|--------------------|
| CASH FLOWS FROM/(TO) OPERATING ACTIVITIES              |                    |
| Cash received from                                     |                    |
| Donations  | \$ 214,954         |
| New partner home sales                                 |                    |
| Interest earnings                                      | 11,109             |
| Partnership condominium association assessments        | 2,925              |
| Other  | 8                  |
| Cash paid for  |                    |
| Employees  | \$ (38,815)        |
| Operational expenses                                   | (30,521)           |
| Construction   | (220,474)          |
| Partnership condominium association costs              | (636)              |
| NET CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES | \$ <u>(61,450)</u> |
| CASH FLOWS FROM/(TO) INVESTING ACTIVITIES              |                    |
| Costs of foreclosures                                  | \$ (304)           |
| Payments on short-term note                            | 1,912              |
| Payments on mortgages                                  | 23,431             |
| Purchase of equipment                                  | (1,603)            |
| NET CASH FLOWS PROVIDED/(USED) BY INVESTING ACTIVITIES | \$ <u>23,436</u>   |
| CASH FLOWS FROM/(TO) FINANCING ACTIVITIES              |                    |
| Principal payments on notes                            | \$ <u>(1,740)</u>  |
| NET CASH FLOWS PROVIDED/(USED) BY FINANCING ACTIVITIES | \$ <u>(1,740)</u>  |
| NET INCREASE/(DECREASE) IN CASH                        | \$ (39,754)        |
| CASH - Beginning of year                               | \$ 167,026         |
| CASH - End of year                                     | \$ <u>127,272</u>  |

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS  
PROVIDED/(USED) BY OPERATING ACTIVITIES

|  |                    |
|--|--------------------|
| CASH FLOWS FROM/(TO) OPERATING ACTIVITIES                              |                    |
| Increase/(decrease) in net assets for the year                         | \$ 236,947         |
| Adjustments to reconcile change in net assets to operating cash flows: |                    |
| Depreciation   | \$ 1,181           |
| Change in mortgage receivable discount                                 | (15,005)           |
| Change in construction notes discount                                  | 254                |
| Change in deferred revenue - administrative income                     | (742)              |
| Donated equipment  | (1,500)            |
| Decrease/(increase) in:  |                    |
| Accounts and other receivables   | \$ 3,101           |
| Home construction-in-progress  | (305,060)          |
| Prepaid expenses   | (467)              |
| Increase/(decrease) in:  |                    |
| Accounts payable and accrued expenses                                  | \$ <u>19,841</u>   |
| NET CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES                 | \$ <u>(61,450)</u> |

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

Habitat for Humanity of Missoula, Inc.

Consolidated Statement of Cash Flows  
For the Twelve-Month Period Ended June 30, 2008

|  |              |
|--|--------------|
| CASH FLOWS FROM/(TO) OPERATING ACTIVITIES              |              |
| Cash received from                                     |              |
| Donations  | \$ 360,686   |
| New partner home sales                                 | 381,747      |
| Interest earnings                                      | 15,220       |
| Partnership condominium association fees               | 5,203        |
| Other  | 6,137        |
| Cash paid for  |              |
| Employees  | \$ (93,267)  |
| Operational expenses                                   | (75,063)     |
| Construction costs                                     | (366,017)    |
| NET CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES | \$ 234,646   |
| CASH FLOWS FROM/(TO) INVESTING ACTIVITIES              |              |
| Cost of foreclosures                                   | (304)        |
| Short-term notes issued                                | (1,214)      |
| Payments on short-term Nnotes                          | 1,000        |
| Mortgage issued on partner home sales                  | (160,173)    |
| Payments on mortgages receivable                       | 50,919       |
| Purchases of equipment                                 | (2,014)      |
| NET CASH FLOWS PROVIDED/(USED) BY INVESTING ACTIVITIES | \$ (111,786) |
| CASH FLOWS FROM/(TO) FINANCING ACTIVITIES              |              |
| Principal payments on notes                            | \$ (3,242)   |
| NET CASH FLOWS PROVIDED/(USED) BY FINANCING ACTIVITIES | \$ (3,242)   |
| NET INCREASE/(DECREASE) IN CASH                        | \$ 119,618   |
| CASH - Beginning of year                               | \$ 127,272   |
| CASH - End of year                                     | \$ 246,890   |

RECONCILIATION OF CHANGE IN NET ASSETS TO NET CASH FLOWS  
PROVIDED/(USED) BY OPERATING ACTIVITIES

|   |            |
|---|------------|
| CASH FLOWS FROM/(TO) OPERATING ACTIVITIES   |            |
| Increase/(decrease) in unrestricted net assets for the year                         | \$ 185,463 |
| Adjustments to reconcile change in unrestricted net assets to operating cash flows: |            |
| Depreciation  | \$ 1,586   |
| Change in mortgage receivable discount  | 26,454     |
| Change in construction notes discount   | 375        |
| Change in deferred revenue - administrative income                                  | (1,322)    |
| Donated equipment   | (800)      |
| Decrease/(increase) in:   |            |
| Accounts and other receivables  | \$ 987     |
| Prepaid expenses  | 412        |
| Home construction-in-progress   | 23,446     |
| Increase/(decrease) in:   |            |
| Accounts payable and accrued liabilities  | \$ (8,147) |
| Compensated absences  | 6,192      |
| NET CASH FLOWS PROVIDED/(USED) BY OPERATING ACTIVITIES                              | \$ 234,646 |

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

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Nature of the Organization – Habitat for Humanity of Missoula, Inc. (Habitat) is affiliated with Habitat for Humanity International, Inc. (Habitat International). The Missoula organization was founded in 1990 as a nonprofit, ecumenical Christian housing ministry following the international mission to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, Habitat builds simple, decent houses with the help of low-income homeowner families. The organization focuses its efforts in Missoula County.

Houses built by Habitat and its volunteers are sold to partner families at no profit, financed with affordable, no-interest loans. The homeowner's monthly mortgage payments are used to build additional houses. In addition to a down payment and monthly mortgage payments, each homeowner family invests hundreds of hours of their own labor in the building of their house as well as the houses of others.

Consolidated Entity – As part of one Habitat project that was ready for occupancy in 2002, the Partnership Condominium Homeowners' Association, Inc. (Condo Association) was formed. During the period that Habitat retains the controlling interest in the Association, the financial information of the Association is consolidated with Habitat for reporting purposes. The Association maintains a separate checking account and a separate board with the exception of the treasurer who serves both boards. Habitat's majority interest will end in August 2009. Further discussion regarding the Condo Association can be found on Note 19.

Cash and Cash Equivalents – Habitat treats all investments having initial maturities of three months or less as cash equivalents for purposes of these financial statements.

Tax Status – Habitat is exempt from federal income tax under Section 501c(3) of the Internal Revenue Code (IRC). Habitat does not operate any activities which would be classified as "Unrelated Business Income" under Internal Revenue Service rules.

Under IRS Code Section 528, the Partnership Condominium Homeowners' Association is not subject to income taxes as long as at least 60 percent of the income is derived from membership dues, fees or assessments and at least 90% of the expenses relate to activities for the common property. The Association did not owe taxes for 2007 or 2008.

Basis of Accounting – Habitat prepares its financial statements on the accrual basis of accounting, according to the policies of Habitat International and generally accepted accounting principals in the United States of America (GAAP). Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Revenues from the sale of houses are recognized at the date of transfer to the home buyer. Construction costs for each home are capitalized and carried as an asset until the date of transfer of the home, at which time the costs are expensed.

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Construction in Progress Assets – Land acquired for homes along with materials, labor, supplies, services and other costs of building are recorded as Construction-in-Progress assets until expensed at the time of transfer of ownership of a property.

In-Kind Contributions of Land, Materials and Services – As required by SFAS No. 16, contributed service revenue results when donated contributions create or enhance non-financial assets or when specialized skills are provided by people possessing those skills that would typically be purchased, if not provided by contribution. Contributions of land, construction materials and supplies are recorded at estimated fair value at the time of donation. In-kind services and materials donated to Habitat that are included in the financial statements for the six months ended June 30, 2007 and the twelve months ended June 30, 2008 totaled \$86,554 and \$108,780, respectively.

Contributed support is reported as unrestricted or temporarily restricted depending upon the existence of donor stipulations. Temporarily restricted contributions whose restrictions have been fulfilled in the current year are reported as unrestricted.

Other contributed services are tracked internally for several purposes but do not appear in the financial statements.

Estimates – The preparation of financial statements in conformity with accounting principals generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual amounts could differ from estimates.

Property and Equipment – Habitat capitalizes equipment with a value of \$1,000 or more. Lesser amounts are expensed. Equipment, whether purchased or donated, is recorded at cost or estimated fair market value at the time of acquisition. Donations are reported as unrestricted contributions unless the donor has restricted the donated asset to a specific purpose. Depreciation is recorded on a straight-line basis over the estimated useful life.

Compensated Absences – It is Habitat's policy to permit employees to accumulate earned but unused paid time off benefits. Unused paid time off benefits are 100% payable upon termination. Such amounts are reported as liabilities in the appropriate statement of financial position. Paid time off accrues biweekly and accumulates into a paid leave account according to the following schedule for full-time employees.

|  |                              |
|--|------------------------------|
| 1 <sup>st</sup> and 2 <sup>nd</sup> years.....                     | 18 days (144 hours) per year |
| 3 <sup>rd</sup> , 4 <sup>th</sup> , and 5 <sup>th</sup> years..... | 24 days (192 hours) per year |
| 6 or more years.....   | 30 days (240 hours) per year |

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, continued

Regularly scheduled part-time employees accrue paid time off in proportion to their usual workweek as a percentage of 40 hours per week. Employees begin accruing paid time off from the beginning of the pay period in which they begin work. Changes in annual accrual amounts begin the next pay period following the start of the 3<sup>rd</sup> and 6<sup>th</sup> year of work. Employees may accumulate up to 30 days (240 hours) of paid time off. At that point, the employee will stop accumulating paid time off until the employee's balance drops below the 240-hour limit. Employees who terminate their employment will receive payment for accrued paid time off at their regularly hourly rate.

Categories of Net Assets – The net assets of Habitat are reported in the following categories:

*Unrestricted Net Assets* – generally have no donor-imposed restrictions. This category includes net amounts that have been earned and expended according to grant conditions and general unrestricted activities.

*Temporarily Restricted Net Assets* – include gifts for which donor-imposed restrictions have not been met and funds for which the ultimate purpose is not permanently restricted. As of June 30, 2007 and 2008 no donor restrictions affected net assets.

*Permanently Restricted Net Assets* – result from contributions and other inflows of assets whose use is limited by donor-imposed stipulations that neither expire by passage of time, nor are fulfilled or otherwise removed by actions of Habitat. As of June 30, 2007 and 2008, Habitat had no permanently restricted net assets.

Advertising – Habitat expenses advertising costs as incurred. Advertising expenses were \$1,344 and \$7,269 for the six months ended June 30, 2007 and the twelve months ended June 30, 2008 respectively.

NOTE 2: CHANGE IN ACCOUNTING PERIOD

On January 1, 2007, Habitat changed its accounting year end to match with that of Habitat for Humanity International, which uses a fiscal year ending June 30. This caused Habitat to have a short year ending June 30, 2007. Therefore, in the financial statements for the six months ended June 30, 2007 and 12 months ended June 30, 2008, no comparative financial information is presented. Beginning with fiscal year ending June 30, 2009, Habitat will present comparative financials again. The only significant financial statement change associated with this new fiscal year end will be the construction in progress (CIP) asset. Typically, at June 30, Habitat is well under way with construction on partner family homes resulting in a significant balance in the CIP asset. Prior to this change, at December 31, only minor amounts representing future costs allocable to future homes were reported in this account because the year's homes had been completed and sold. As of June 30, 2007, Habitat was building three homes with \$141,671 in construction in progress. As of June 30, 2008, Habitat was also building three homes with \$121,223 in construction in progress.

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 3: CONSOLIDATED FINANCIAL STATEMENTS

During 2003, Habitat adopted *Statement of Financial Accounting Standards No. 94 "Consolidation of all Majority Owned Subsidiaries."* As discussed in Note 1, Habitat has majority interest in the Condo Association. The Condo Association has a calendar year; however the financial statements have been consolidated on Habitat's fiscal year. Below are condensed financial statements for the Condo Association converted from its calendar year financials.

During the year ending June 30, 2008, Habitat proceeded with foreclosure on a partner family condo in the Partnership Condo Association and took possession of the unit in October 2008. Habitat also paid the monthly assessment fee on a unit which was purchased at Sheriffs auction and is included as Home for Sale on these financial statements. For the twelve months ended June 30, 2008, a total of \$396 was paid in Condo Assessments by Habitat. Habitat's majority ownership in the Condo Association will still end in August 2009.

|                              | <u>6 Months</u><br><u>Ended</u><br><u>June 30, 2007</u> | <u>12 Months</u><br><u>Ended</u><br><u>June 30, 2008</u> |
|------------------------------|---|--|
| Assets                       |   |  |
| Cash                         | \$ 2,499  | \$ 2,982   |
| Accounts receivable          | 638   | 623  |
| Prepaid insurance            | <u>232</u>  | <u>252</u>   |
| Total assets                 | \$ <u>3,369</u>   | \$ <u>3,857</u>  |
| Liabilities                  | \$ 92   | \$ 66  |
| Retained earnings (equity)   | <u>3,277</u>  | <u>3,791</u>   |
| Total liabilities and equity | \$ <u>3,369</u>   | \$ <u>3,857</u>  |
| Revenues                     | \$ 2,772  | \$ 5,544   |
| Expenses                     | <u>(1,692)</u>  | <u>(5,029)</u>   |
| Net income                   | \$ <u>1,080</u>   | \$ <u>515</u>  |

NOTE 4: SHORT TERM NOTE RECEIVABLE

During 2008, Habitat extended a one year note to a partner family for flooring costs. The total amount of the interest-free note was \$1,214; payable in full on January 31, 2009. At June 30, 2008 the balance owed was \$214.

NOTE 5: PREPAID EXPENSES

As of June 30, 2007, Habitat had \$2,900 in prepaid expenses; Partnership Condominium Association had \$232 in prepaid insurance expenses. As of June 30, 2008, Habitat had \$2,377 in prepaid expenses; the Condo Association had \$252 in prepaid expenses.

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 6: INVESTMENTS

In the past, Habitat has sold mortgages to Montana Board of Housing. Until needed for home building, the excess cash is invested. At June 30, 2007 and 2008, \$200,000 was invested in Municipal Auction Rate Securities.

NOTE 7: PROPERTY AND EQUIPMENT

Activity in the asset account for property and equipment was as follows for the six-month period ended June 30, 2007 and the twelve-month period ended June 30, 2008.

|                                   | <u>Total Assets</u> | <u>Depreciation</u> |
|-----------------------------------|---------------------|---------------------|
| Beginning balance January 1, 2007 | \$ 12,338           | \$ (7,744)          |
| 2007 Additions                    | <u>3,103</u>        | <u>(1,181)</u>      |
| Balance June 30, 2007             | \$ 15,441           | \$ (8,925)          |
| 2008 Additions                    | <u>2,814</u>        | <u>(1,586)</u>      |
| Balance June, 30, 2008            | \$ <u>18,255</u>    | \$ <u>(10,511)</u>  |

NOTE 8: FORECLOSED HOME FOR RESALE

As discussed in Note 3, Habitat preceded with foreclosure on a partner family home in the Partnership Condominium Association due to default on the mortgage. The unit was purchased by Habitat at a Missoula County Sheriffs auction for five dollars. The mortgage receivable due at the time of auction included all costs associated with the foreclosure. The receivable was reclassified to "Home for Resale" and removed from the mortgages receivable. At June 30, 2008, Habitat was in the process of making repairs to the unit in preparation of choosing a new partner family. As of June 30, 2008, \$5,737 in additional costs was included in the total construction in progress for this unit.

NOTE 9: MORTGAGES RECEIVABLE (FIRST MORTGAGES)

When Habitat transfers ownership of a home to a family partner, two mortgages are created. The first mortgage is a note for the cost of building the home with principal payments due monthly. The term of the first mortgage varies depending on the amount of the mortgage and the partner family's ability to pay. These first mortgages are interest free and currently have terms ranging from 8 to 50 years with the longest mortgage maturing in 2054. Monthly payments range from \$120 to \$473. Habitat does not record an allowance for bad debt for these mortgages. The first mortgages are valued in the financial statements at fair value. Fair value is reached annually by discounting the face amount of a mortgage using the rate established by Habitat International at the time of mortgage origination. Discount rates are established each year for sales in that year. The discount is amortized over the life of the mortgage. The following table summarizes the activity in the mortgage accounts for the six-month period ended June 30, 2007 and the twelve-month period ended June 30, 2008.

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 9: MORTGAGES RECEIVABLE (FIRST MORTGAGES), continued

|                            | Due 1 Year       | Due 2-50 Years      | Discount            | Fair Value        |
|----------------------------|------------------|---------------------|---------------------|-------------------|
| Beginning balance          | \$ 56,708        | \$ 1,086,899        | \$ (697,978)        | \$ 445,629        |
| 2007 New mortgages         | -                | -                   | -                   | -                 |
| 2007 Payments received     | (22,691)         | -                   | -                   | (22,691)          |
| 2007 Discount amortized    | -                | -                   | 15,005              | 15,005            |
| Adjust for current portion | <u>20,711</u>    | <u>(20,711)</u>     | <u>-</u>            | <u>-</u>          |
| June 30, 2007              | \$ <u>54,728</u> | \$ <u>1,066,188</u> | \$ <u>(682,973)</u> | \$ <u>437,943</u> |
| 2008 New mortgages         | -                | 160,173             | (96,683)            | 63,490            |
| 2008 Payments received     | (54,199)         | -                   | -                   | (54,199)          |
| 2008 Discount amortized    | -                | -                   | 30,219              | 30,219            |
| 2008 Foreclosed home       | -                | (62,560)            | 40,009              | (22,551)          |
| Adjust for current portion | <u>59,875</u>    | <u>(59,875)</u>     | <u>-</u>            | <u>-</u>          |
| June 30, 2008              | \$ <u>60,404</u> | \$ <u>1,103,926</u> | \$ <u>(709,428)</u> | \$ <u>454,902</u> |

The discount is amortized over the life of each mortgage individually. Total discount amortization was \$682,973 and \$709,428 for the six-month period ended June 30, 2007 and the twelve-month period ended June 30, 2008, respectively.

Habitat did not have homes completed to sell to family partners during the six-month period ended June 30, 2007. Three homes were complete and sold to family partners during the twelve-month period ended June 30, 2008; however, of the three homes sold to partner families, two received outside financing and Habitat carries the mortgage on the other.

NOTE 10: SECOND MORTGAGES

At the time the first mortgage is created, a second mortgage note is also created. The second mortgage amount is the difference between the market value of the home and the amount of the first mortgage. The second note is forgiven over a period of time if the homeowner continues to occupy the home and make payments on the first note. The second mortgage is not recorded in the financial statements because its collection is uncertain and no estimate is available of future payments. If the homeowner transfers, sells, or assigns their title or interest in the property or ceases to occupy the property, Habitat will collect on the balance of the note and realize a gain at that time. No gains were recognized in 2007 or 2008. Some mortgages originated within the year ending June 30, 2008 have a third promissory mortgage within the second mortgage that is forgiven over 30 years, but the balance is due if the house sells within the 30 year period.

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 11: PREPAID MORTGAGE LIABILITY

Families are required to make a down payment prior to beginning construction of their home. These payments are recorded as prepaid mortgages and are credited against the first mortgages at the home closing. At June 30, 2007 and 2008, respectively, these amounts were \$4,777 and \$1,500.

NOTE 12: DEFERRED REVENUE

Administrative Income – At the closing of each home, Habitat charges a \$2,000 administrative fee, which is included in the mortgage amount. This deferred revenue is recorded as unearned administrative income. The administrative fee is amortized and recognized over the life of the mortgage. Total administrative income amortized was \$742 and \$7,323 for the six-month period ended June 30, 2007 and the twelve-month period ended June 30, 2008, respectively.

NOTE 13: LONG TERM NOTES PAYABLE

Line of Credit – Annually, Habitat has renewed a line of credit with First Security Bank for \$100,000 which matures in January 2009; at June 30, 2007 and 2008, the balance of this account was zero.

Construction Loans – Habitat obtained construction loans to build its first three homes. The 0% interest loans are secured by real property and have similar lives as the matching mortgages receivable. The construction loans are discounted in the same manner as mortgages receivable. At June 30, 2007, the construction loans had a face value of \$6,745 with a discount of \$1,077 and a present value of \$5,668. During the year ending June 30, 2008, one construction loan was paid in full. At June 30, 2008, the remaining construction loan had a face value of \$4,509 with a discount of \$702 and present value of \$3,807. Long term balances were \$4,509 and \$3,357 at June 30, 2007 and 2008, respectively. Discount rates range from 6.0% to 8.78%.

SHOP Grant Notes – In 2002 Habitat received a SHOP grant of \$20,080 of which \$5,020 was available as a 0% loan. As of December 31, 2005 \$3,994 had been drawn against the loan. Monthly payments of \$ 83 commenced in July of 2004. As of June 30, 2007 the balance of the SHOP Grant note was \$1,006. This loan was paid in full as of June 30, 2008.

Future scheduled payments of debt (principal) are as follows for years ended June 30,

|                |                 |
|----------------|-----------------|
| 2009           | 1,152           |
| 2010           | 1,152           |
| 2011           | 1,152           |
| 2012           | <u>1,053</u>    |
| Total Payments | \$ <u>4,509</u> |

All of the long-term debts at June 30, 2007 and 2008 were zero interest loans.

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 14: OPERATING LEASES

Habitat had two short-term operating leases during the years ended 2007 and 2008. Office space was leased on a monthly basis for \$263, and one storage space was leased for monthly rent of \$55.

NOTE 15: RELATED PARTY TRANSACTIONS

Habitat interacts with Habitat International in various financial transactions. As described in Note 13, Habitat was awarded a SHOP grant administered by Habitat International. (see Note 13)

Habitat tithes a portion of general cash contributions to Habitat International for use in global operations. Currently these funds are used to construct homes in economically depressed areas of Habitat International's overseas projects. For the years ended June 30, 2007 and 2008, Habitat tithing expenses were \$12,214 and \$20,295, respectively. At June 30, 2007 and 2008, accrued tithing balances owing to Habitat International were \$4,762 and \$4,057 respectively.

In addition Habitat received \$62,092 during the six months ending June 30, 2007 and \$124,956 during the twelve months ending June 30, 2008 from Thrivent Financial for Lutherans, which is affiliated with Habitat for Humanity International. These amounts represent the funding under the House Sponsorship Agreements for the construction of partner homes. As part of the agreements, Habitat was responsible for securing at least 50% of all volunteer construction positions with Lutherans and 12.5% with Thrivent members. Habitat must also secure a pledge of 10% of total house costs by the local Thrivent Chapter. Habitat must also provide 25% of total house costs.

NOTE 16: CASH FLOW STATEMENTS NOTES

Effects of Mortgages on Cash Flow – Habitat mortgages to partner families are created to recover the cost of constructing partner homes. No actual cash is given or received at the time of occupancy; however in compliance with accounting principles generally accepted in the United States of America, a "Mortgages Issued" cash outflow appears in the financing section and a matching cash inflow is part of "New Partner Home Sales" in the operating section. Mortgages issued equaled \$0 for the six-month period ended June 30, 2007 and \$160,173 for the twelve-month period ended June 30, 2008.

NOTE 17: COST ALLOCATION

Habitat allocates costs that can be identified specifically with a particular final cost objective directly to either program or support services. Joint costs are allocated based on a survey of the Executive Director's use of time between program, fund raising and management.

Habitat for Humanity of Missoula, Inc.  
Notes to Consolidated Financial Statements  
For the Periods Ending June 30, 2007 and 2008

NOTE 18: RISK MANAGEMENT

Habitat is exposed to a number of risks including loss related to theft of, damage to and destruction of property as well as other general liabilities. Habitat transfers its risks through the purchase of commercial insurance. As described in Note 19, Habitat does have a liability through its responsibilities in the Partnership Condominium Association; subsequent to June 30, 2008, the Partnership Condominium Associations board voted for a condo assessment increase to help in the build up of reserve.

NOTE 19: HABITAT LIABILITY FOR PARTNERSHIP CONDOMINIUM ASSOCIATION AND GOING CONCERN ISSUES

As described in Note 1, Habitat retains the controlling interest in the Partnership Condominium Association (Condo Association) through August 2009. The Association has not been able to accrue any money in a replacement fund for roofing, etc. As the controlling interest and holder of several mortgages in the project, Habitat is working with the Condo Association to improve the Association's viability. If the Condo Association can not become viable on its own, Habitat may need to continue to assist the Condo Association after 2009 in order to protect Habitat's outstanding mortgages on the properties.

NOTE 20: SUBSEQUENT EVENTS

In September 2008, the Partnership Condominium Association and Habitat settled a housing discrimination complaint brought forth by a partner family and the United States Department of Housing and Urban Development against the Partnership Condominium Association. As part of the agreement, Habitat agreed to purchase the unit which will be rehabilitated and sold once another partner family is chosen.