

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

CONSOLIDATED FINANCIAL STATEMENTS  
AND  
INDEPENDENT AUDITOR'S REPORT

June 30, 2009

Prepared By:

***Tompkins & Peters CPAs, P.C.***

1821 South Avenue West, Suite 405  
Missoula, MT 59801

**Phone:** (406) 251-4272

**Fax:** (406) 363-3866

[www.TPcpas.com](http://www.TPcpas.com)

**TABLE OF CONTENTS**

Independent Auditor's Report.....1  
Consolidated Statement of Financial Position.....2-3  
Consolidated Statement of Activities.....4  
Consolidated Statement of Functional Expenses.....5  
Consolidated Statement of Cash Flows.....6  
Notes to Consolidated Financial Statements.....7-14



## INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of  
Habitat for Humanity of Missoula, Inc.  
Missoula, MT

We have audited the accompanying consolidated statement of financial position of Habitat for Humanity of Missoula, Inc. (a nonprofit organization) as of June 30, 2009, and the related consolidated statements of activities, functional expenses, and cash flows for the year 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 audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used in 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 consolidated financial position of Habitat for Humanity of Missoula, Inc. as of June 30, 2009, and the consolidated changes in net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

*Tompkins & Peters CPAs, P.C.*

Missoula, MT  
October 12, 2009

8275 South Eastern Avenue, Suite 200  
Las Vegas, Nevada 89123  
Phone: (702) 456-4272  
Fax: (702) 456-9522

1821 South Avenue West, Suite 405  
Missoula, Montana 59801  
Phone: (406) 251-4272  
Fax: (406) 363-3866

7 West 6th Avenue, Suite 4D  
Helena, Montana 59601  
Phone: (406) 449-4272  
Fax: (406) 442-4116

1659 North First Street, Suite 2  
Hamilton, Montana 59840  
Phone: (406) 363-0097  
Fax: (406) 363-3866

[www.TPcpas.com](http://www.TPcpas.com)

MEMBER: AICPA, MSCPA, NSCPA, NACVA

# HABITAT FOR HUMANITY OF MISSOULA, INC.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As of June 30, 2009

### ASSETS

#### Current Assets

Cash and Cash Equivalents - <b>NOTE A</b>	
Habitat for Humanity of Missoula, Inc.	\$ 136,841
Partnership Condominium Association	<u>5,399</u>
Total Cash and Cash Equivalents	142,240
Accounts Receivable, Net of	
Allowance for Doubtful Accounts	3,029
Short-Term Note Receivable	509
Current Portion of Mortgages	
Receivable - <b>NOTE F</b>	67,983
Prepaid Expenses - <b>NOTE C</b>	12,889
Certificates of Deposit - <b>NOTE D</b>	150,366
Home Construction-In-Progress	
Land	150,000
Dwelling	<u>155,834</u>
Total Home Construction-In-Progress	<u>305,834</u>
<b>Total Current Assets</b>	<b>682,850</b>

#### Noncurrent Assets

Homes for Resale	187,984
Mortgages Receivable - <b>NOTE F</b>	
Face Amount of Mortgages	1,244,161
Discount to Estimated Fair Value	<u>(789,629)</u>
Total Mortgages Receivable, Net	<u>454,532</u>
<b>Total Noncurrent Assets</b>	<b>642,516</b>

#### Property and Equipment - **NOTE E**

Property and Equipment	24,583
Accumulated Depreciation	<u>(13,246)</u>
Total Property and Equipment, Net of	
Accumulated Depreciation	<u>11,337</u>

**TOTAL ASSETS** \$ 1,336,703

*See Accompanying Notes and Independent Auditor's Report.*

# HABITAT FOR HUMANITY OF MISSOULA, INC.

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION (CONTINUED)

As of June 30, 2009

### LIABILITIES

#### Current Liabilities

Accounts Payable and Accrued Liabilities	\$	34,858
Current Portion of Notes Payable		1,152
Prepaid Mortgage Liability - <b>NOTE H</b>		2,900
Compensated Absences		8,509
Deferred Revenue - <b>NOTE I</b>		<u>30,043</u>

**Total Current Liabilities** 77,462

#### Long-Term Liabilities

Long-Term Notes Payable - <b>NOTE J</b>		
Face Amount of Notes Payable		2,205
Adjustment to Estimated Fair Value		<u>(402)</u>
Long-Term Notes Payable, Net of Current Portion		<u>1,803</u>

**Total Long-Term Liabilities** 1,803

**TOTAL LIABILITIES** 79,265

### NET ASSETS

Unrestricted		<u>1,257,438</u>
--------------	--	------------------

**TOTAL NET ASSETS** 1,257,438

**TOTAL LIABILITIES AND NET ASSETS** \$ 1,336,703

*See Accompanying Notes and Independent Auditor's Report.*

# HABITAT FOR HUMANITY OF MISSOULA, INC.

## CONSOLIDATED STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2009

### UNRESTRICTED REVENUES

Donations	
Cash	\$ 87,353
Grants	101,292
In-Kind Services and Materials	120,736
Special Events, Net of Costs	<u>58,859</u>
Total Donations	368,240
New Partner Home Sales	394,895
Mortgage Discount Amortization	53,776
Interest Earnings	7,659
Partnership Condominium Association Assessments	6,191
Other Income	<u>28,482</u>

**TOTAL UNRESTRICTED REVENUES** 859,243

### UNRESTRICTED EXPENSES

Program Services	
Cost of Partner Homes Sold	482,427
Mortgage Discount Expense	133,978
Other	<u>121,290</u>
Total Program Services	737,695
Support Services	
Management and General	32,844
Fundraising	<u>31,322</u>
Total Support Services	64,166
Partnership Condominium Association	<u>3,931</u>

**TOTAL UNRESTRICTED EXPENSES** 805,792

Change in Net Assets	53,451
Net Assets, Beginning of Year	<u>1,203,987</u>
Net Assets, End of Year	<u><u>\$ 1,257,438</u></u>

*See Accompanying Notes and Independent Auditor's Report.*

# HABITAT FOR HUMANITY OF MISSOULA, INC.

## CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2009

	Program Services			Supporting Services			Partnership Condominium Association	Total Expenses
	Cost of Partner Homes Sold	Mortgage Discount	Other	Management & General	Fundraising			
Accounting Fees	\$ -	\$ -	4,152	\$ 2,562	\$ 2,120	\$ -	\$ -	8,834
Advertising	-	-	4,352	2,685	2,222	-	-	9,259
Audit Fees	-	-	3,290	2,030	1,680	-	-	7,000
Bank Fees	-	-	-	39	100	-	-	139
Conference and Seminars	-	-	161	99	82	-	-	342
Construction	482,427	-	-	-	-	-	-	482,427
Depreciation	-	-	2,343	214	177	-	-	2,734
Disposal	-	-	-	-	-	-	1,149	1,149
Discount Expense	-	133,978	300	-	-	-	-	134,278
Dues and Subscriptions	-	-	747	461	381	-	-	1,589
Insurance	-	-	731	451	373	-	1,975	3,530
Legal Fees	-	-	10,500	-	-	-	-	10,500
Licenses	-	-	7	4	4	-	15	30
Mission Specific Costs	-	-	8,159	-	-	-	-	8,159
Office Supplies	-	-	2,702	1,993	1,650	-	15	6,360
Payroll Taxes	-	-	3,406	1,673	1,666	-	-	6,745
Postage and Shipping	-	-	863	532	1,119	-	-	2,514
Printing and Publications	-	-	2,296	1,417	1,433	-	-	5,146
Rent	-	-	2,101	1,296	1,073	-	-	4,470
Repairs and Maintenance	-	-	429	-	-	-	-	429
Salaries	-	-	34,135	16,718	16,688	-	-	67,541
Telephone	-	-	1,086	670	554	-	-	2,310
Title Expense - NOTE L	-	-	8,810	-	-	-	-	8,810
Utilities	-	-	-	-	-	-	777	777
Youth Court	-	-	30,720	-	-	-	-	30,720
	\$ 482,427	\$ 133,978	\$ 121,290	\$ 32,844	\$ 31,322	\$ 3,931	\$ -	\$ 805,792

See Accompanying Notes and Independent Auditor's Report.

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

**CONSOLIDATED STATEMENT OF CASH FLOWS**

For the Year Ended June 30, 2009

**CASH FLOWS FROM OPERATING ACTIVITIES**

Change in Net Assets	\$ 53,451
Adjustments to Reconcile Net Assets to Net Cash Provided by Operating Activities:	
Depreciation	2,734
Increase (Decrease) in Assets:	
Accounts Receivable	(2,578)
Short-Term Note Receivable	(295)
Current Portion of Mortgages Receivable	(7,579)
Prepaid Expenses	(10,260)
Certificates of Deposit	49,634
Home Construction-In-Progress: Land	15,000
Home Construction-In-Progress: Dwelling	(34,611)
Homes for Resale	(124,721)
Face Amount of Mortgages Receivable	(140,234)
Discount to Estimated Fair Value	80,201
Increase (Decrease) in Liabilities:	
Accounts Payable and Accrued Liabilities	17,040
Prepaid Mortgage Liability	1,400
Deferred Revenue	1,031
Compensated Absences	<u>2,317</u>
Net Cash Used by Operating Activities	(97,470)

**CASH FLOWS FROM INVESTING ACTIVITIES**

Purchase of Fixed Assets	<u>(6,328)</u>
Net Cash Used by Investing Activities	(6,328)

**CASH FLOWS FROM FINANCING ACTIVITIES**

Payments on Long Term Debt	(1,152)
Change in Construction Loan Discount	<u>300</u>
Net Cash Flows Used by Financing Activities	<u>(852)</u>

<b>NET DECREASE IN CASH</b>	(104,650)
<b>CASH AT BEGINNING OF YEAR</b>	<u>246,890</u>
<b>CASH AT END OF YEAR</b>	<u><u>\$ 142,240</u></u>

*See Accompanying Notes and Independent Auditor's Report.*

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

June 30, 2009

**NOTE A – NATURE OF ORGANIZATION AND 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 homeowners' 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 on both boards. Habitat's majority interest ends in August 2009. Further discussion regarding the Condo Association can be found on Note B.

**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 2009.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

**NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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.

**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 year ended June 30, 2009 totaled \$120,736.

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.

In addition, many individuals volunteer their time and perform a variety of tasks that assist Habitat with programs, solicitations, and various other areas. These donated services have not been reflected in the financial statements because they do not meet the criteria for recognition as contributed services.

**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.

HABITAT FOR HUMANITY OF MISSOULA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

**NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**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

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 employees will stop accumulating paid time off until the employees' balance drops below the 240-hour limit. Employees who terminate their employment will receive payment for accrued paid time off at their regular 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.

HABITAT FOR HUMANITY OF MISSOULA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

**NOTE A – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**Categories of Net Assets (Continued)**

*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, 2009 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, 2009, Habitat had no permanently restricted net assets.

**Advertising**

Habitat expenses advertising costs as incurred. Advertising expenses were \$9,259 for the year ended June 30, 2009.

**NOTE B – CONSOLIDATED FINANCIAL STATEMENTS**

During 2003, Habitat adopted *Statement of Financial Accounting Standards No. 94 "Consolidation of all Majority Owned Subsidiaries."* As discussed in Note A, Habitat has a 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.

	<u>June 30, 2009</u>
Assets	
Cash	\$ 5,399
Accounts Receivable	624
Prepaid Insurance	212
Total Assets	<u>\$ 6,235</u>
Liabilities	\$ 184
Retained Earnings (Equity)	6,051
Total Liabilities and Equity	<u>\$ 6,235</u>
Revenues	\$ 6,191
Expenses	<u>(3,931)</u>
Net Income	<u>\$ 2,260</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

**NOTE C – PREPAID EXPENSES**

As of June 30, 2009, Habitat had \$12,677 in prepaid expenses; the Condo Association had \$212 in prepaid expenses.

**NOTE D – CERTIFICATES OF DEPOSIT**

In the past, Habitat has sold mortgages to the Montana Board of Housing. Until the funds are needed for home building, the excess cash is invested. At June 30, 2009, \$150,366 was invested in Certificates of Deposit. Interest rates on the three Certificates of Deposit, held by Habitat, range from 2.72% to 3.45%. The three Certificates of Deposit all mature in either eleven or twelve months from the date of issuance.

**NOTE E – PROPERTY AND EQUIPMENT**

Activity in the asset account for property and equipment was as follows for the twelve-month period ended June 30, 2009.

	<u>Total Assets</u>	<u>Depreciation</u>
Beginning Balance July 1, 2008	\$ 18,255	\$ (10,512)
2009 Additions	<u>6,328</u>	<u>(2,734)</u>
Balance June 30, 2009	<u>\$ 24,583</u>	<u>\$ (13,246)</u>

**NOTE F – 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 2059. Monthly payments range from \$138 to \$540. Habitat does not record an allowance for bad debts for these mortgages, since each of these mortgages are fully secured by collateral.

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. Habitat International sets these annual rates by averaging the monthly discount rates published by the Internal Revenue Service for buildings placed into service during that year. The discount is amortized over the life of the mortgage. The following table summarizes the activity in the mortgage accounts for the year ended June 30, 2009.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

**NOTE F – MORTGAGES RECEIVABLE – FIRST MORTGAGES (Continued)**

	<u>Due 1Year</u>	<u>Due 2-50 Years</u>	<u>Discount</u>	<u>Fair Value</u>
Beginning Balance	\$ 60,404	\$ 1,103,926	\$(709,427)	\$454,903
2009 New Mortgages	-	243,463	(133,978)	109,485
2009 Payments Received	(56,586)	-	-	(56,586)
2009 Discount amortized	-	-	53,776	53,776
2009 Foreclosed Home/Sales	-	(39,063)	-	(39,063)
Adjust for Current Portion	<u>64,165</u>	<u>(64,165)</u>	<u>-</u>	<u>-</u>
June 30, 2009	<u>\$ 67,983</u>	<u>\$ 1,244,161</u>	<u>\$(789,629)</u>	<u>\$522,515</u>

The discount is amortized over the life of each mortgage individually. Total discount amortization was \$789,629 for the year ended June 30, 2009.

**NOTE G – SECOND AND THIRD 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 2009. Some properties have third mortgages that are forgiven over 30 years, but the balance is due if the house sells within the 30 year period.

**NOTE H – 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, 2009, these amounts totaled \$2,900.

**NOTE I – 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 \$4,969 for the year ended June 30, 2009.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)

June 30, 2009

**NOTE J – 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 2010. At June 30, 2009, 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, 2009, the construction loans had a face value of \$3,356 (\$2,205 long-term portion and \$1,152 short-term portion) with a discount of \$402, and present value of \$2,955. Discount rates range from 6.0% to 8.78%.

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

2010	\$ 1,151
2011	1,151
2012	<u>1,054</u>
Total	<u>\$ 3,356</u>

All of the long-term debts at June 30, 2009 were zero interest loans.

**NOTE K – OPERATING LEASES**

Habitat had three month-to-month operating leases during the year ended June 30, 2009. Office space was leased on a monthly basis for \$263, and two storage spaces were leased for monthly rent of \$110 and \$55.

**NOTE L – RELATED PARTY TRANSACTIONS**

Habitat interacts with Habitat International in various financial transactions.

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 year ended June 30, 2009, Habitat tithing expenses were \$8,810. At June 30, 2009, accrued tithing balance owed to Habitat International totaled \$868.

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

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (CONTINUED)**

June 30, 2009

**NOTE M – 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, fundraising and management.

**NOTE N – 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 O, Habitat does have a liability through its responsibilities in the Partnership Condominium Association. Subsequent to June 30, 2009, the Partnership Condominium Association's board voted for a condo assessment increase to help in the build up of reserve funds.

**NOTE O – HABITAT LIABILITY FOR PARTNERSHIP CONDOMINIUM ASSOCIATION AND GOING CONCERN ISSUES**

As described in Note A, Habitat retains the controlling interest in the Condo Association through August 2009. The Condo Association has not been able to accrue any money in a reserve replacement fund for roofing and other major future repairs and maintenance costs that are the responsibility of the association. As the controlling interest and holder of several mortgages in the project, Habitat is working with the Condo Association to improve the Condo Association's viability. If the Condo Association cannot 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.