



HABITAT FOR HUMANITY TUCSON, INC.

Audited Financial Statements

For the Years Ended June 30, 2009 and 2008

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors of
Habitat for Humanity Tucson, Inc.

We have audited the accompanying statements of financial position of Habitat for Humanity Tucson, Inc., (a nonprofit organization) as of June 30, 2009 and 2008 and the related statements of activities, cash flows, and functional expenses 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. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity Tucson, Inc. as of June 30, 2009 and 2008 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.

Habitat for Humanity Tucson, Inc. has voluntarily presented the schedules of functional expenses as basic financial statements.

Bitner & Collings, pllc

October 20, 2009

Habitat for Humanity Tucson, Inc.
Statements of Financial Position
June 30, 2009 and 2008

	2009	2008
<u>ASSETS</u>		
Current Assets		
Cash	\$ 1,415,091	\$ 1,038,831
Cash, temporarily restricted	298,517	345,915
Grants receivable	87,546	5,902
Inventories - Habistore, land, and construction-in-progress	3,102,746	3,407,550
Mortgages receivable net of discount, due within one year	582,734	586,071
Agency receivables	1,942,858	1,302,296
Prepaid expenses and other current assets	14,985	31,489
Total Current Assets	7,444,477	6,718,054
Property and Equipment, net	299,664	327,042
Other Assets		
Mortgages receivable net of discount, due after one year	4,231,534	4,352,902
Land investments	329,329	981,860
Gift annuity, net of discount of \$456,377 and \$412,216	18,127	62,288
Refundable deposits	15,500	18,000
Endowment funds	14,227	18,605
Total Other Assets	4,608,717	5,433,655
Total Assets	\$ 12,352,858	\$ 12,478,751
<u>LIABILITIES AND NET ASSETS</u>		
Current Liabilities		
Accounts payable	\$ 406,040	\$ 301,632
Accounts payable to related parties and employees	6,126	-
Accrued salaries	44,920	42,763
Accrued leave	50,977	36,239
Other accrued liabilities	5,967	20,340
Deposits received	-	950
Agency payables	1,962,542	1,318,418
Long term debt, due within one year	1,401,404	2,211,787
Total Current Liabilities	3,877,976	3,932,129
Long Term Debt, Due After One Year	203,913	346,154
Total Liabilities	4,081,889	4,278,283
Net Assets		
Unrestricted net assets	7,945,699	7,841,603
Temporarily restricted net assets	305,270	338,865
Permanently restricted net assets	20,000	20,000
Total Net Assets	8,270,969	8,200,468
Total Liabilities and Net Assets	\$ 12,352,858	\$ 12,478,751

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

Habitat for Humanity Tucson, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support				
Cash contributions	\$ 724,695	\$ 792,554	\$ -	\$1,517,249
In-kind contributions (Habitat)	287,338	-	-	287,338
In-kind contributions (HabiStore)	809,077	-	-	809,077
Net sales to homeowners	592,775	-	-	592,775
Grant/Contract revenues	1,061,891	-	-	1,061,891
HabiStore sales	795,774	-	-	795,774
Interest income - mortgages	386,750	-	-	386,750
Second mortgages collected	13,319	-	-	13,319
Sales - CDP developed lots	-	-	-	-
Increase (decrease) in gift annuity	-	(44,161)	-	(44,161)
Interest and investment income	7,191	(4,129)	-	3,062
Realized gains (losses)	340,035	-	-	340,035
Other income	22,886	-	-	22,886
	<u>5,041,731</u>	<u>744,264</u>	<u>-</u>	<u>5,785,995</u>
Total Support				
Net change in restricted assets	777,859	(777,859)	-	-
Expenses				
Program services - Homes	2,500,070	-	-	2,500,070
Program services - HabiStore	1,381,018	-	-	1,381,018
Program services - Land	1,172,060	-	-	1,172,060
Supporting services				
Fundraising	375,518	-	-	375,518
Management and general	286,828	-	-	286,828
	<u>5,715,494</u>	<u>-</u>	<u>-</u>	<u>5,715,494</u>
Total Expenses				
Increase in Net Assets	104,096	(33,595)	-	70,501
Net Assets, June 30, 2008	<u>7,841,603</u>	<u>338,865</u>	<u>20,000</u>	<u>8,200,468</u>
Net Assets, June 30, 2009	<u>\$7,945,699</u>	<u>\$ 305,270</u>	<u>\$ 20,000</u>	<u>\$8,270,969</u>

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

Habitat for Humanity Tucson, Inc.
Statement of Activities and Changes in Net Assets
For the Year Ended June 30, 2008

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Support				
Cash contributions	\$ 720,565	\$ 932,156	\$ -	\$1,652,721
In-kind contributions	177,566	-	-	177,566
In-kind contributions (HabiStore)	800,238	-	-	800,238
Net sales to homeowners	753,606	-	-	753,606
Grant/Contract revenues	1,014,911	-	-	1,014,911
HabiStore sales	784,439	-	-	784,439
Interest income - mortgages	454,623	-	-	454,623
Second mortgages collected	41,310	-	-	41,310
Sales - CDP developed lots	60,166	-	-	60,166
Increase (decrease) in gift annuity	-	(173,526)	-	(173,526)
Interest and investment income	24,810	(1,095)	-	23,715
Realized gains (losses)	187,385	-	-	187,385
Other income	82,669	-	-	82,669
	<u>5,102,288</u>	<u>757,535</u>	<u>-</u>	<u>5,859,823</u>
Total Support	5,102,288	757,535	-	5,859,823
Net change in restricted assets	1,193,104	(1,193,104)	-	-
Expenses				
Program services - Homes	3,298,857	-	-	3,298,857
Program services - HabiStore	1,510,947	-	-	1,510,947
Program services - Land	311,984	-	-	311,984
Supporting services	-	-	-	-
Fundraising	409,409	-	-	409,409
Management and general	313,326	-	-	313,326
	<u>5,844,523</u>	<u>-</u>	<u>-</u>	<u>5,844,523</u>
Total Expenses	5,844,523	-	-	5,844,523
Increase in Net Assets	450,869	(435,569)	-	15,300
Net Assets, June 30, 2007	<u>7,390,734</u>	<u>774,434</u>	<u>20,000</u>	<u>8,185,168</u>
Net Assets, June 30, 2008	<u>\$7,841,603</u>	<u>\$ 338,865</u>	<u>\$ 20,000</u>	<u>\$8,200,468</u>

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

Habitat for Humanity Tucson, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

	<u>2009</u>	<u>2008</u>
Cash Flows From Operating Activities		
Cash receipts from contributions	\$ 1,517,249	\$ 1,652,721
Cash receipts from grants and contracts	980,247	1,331,718
Cash receipts from second mortgages	13,319	41,310
Cash receipts from CDP developed lot sales	-	4,486
HabiStore sales	795,774	784,439
Other revenues	22,886	82,669
Cash paid to suppliers and employees	(4,384,553)	(4,232,905)
Interest and investment income	3,062	23,715
Interest expense paid	(48,491)	(171,619)
Income taxes paid	-	-
Net Cash Flows From Operating Activities	<u>(1,100,507)</u>	<u>(483,466)</u>
Cash Flows From Investment Activities		
Collections on mortgages receivable	714,611	843,359
Cash received from home closings	38,258	46,850
Acquisition of property and equipment	(25,079)	(48,427)
Proceeds from sale of assets	556,603	617,292
Cash received (paid) for land held for investment	<u>1,093,220</u>	<u>(15,099)</u>
Net Cash Flows From Investing Activities	<u>2,377,613</u>	<u>1,443,975</u>
Cash Flows From Financing Activities		
Decrease in designated/restricted cash	51,779	211,625
Proceeds from new borrowings	33,750	2,647
Repayment of debt	<u>(986,374)</u>	<u>(452,141)</u>
Net Cash Flows From Financing Activities	<u>(900,845)</u>	<u>(237,869)</u>
Increase (Decrease) In Cash	376,261	722,640
Cash, beginning of year	<u>1,038,831</u>	<u>316,191</u>
Cash, end of year	<u>\$ 1,415,092</u>	<u>\$ 1,038,831</u>

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

Habitat for Humanity Tucson, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2009 and 2008

Reconciliation of Increase (Decrease) in Net Assets to
Cash Flows from Operating Activities

	<u>2009</u>	<u>2008</u>
Increase (Decrease) in Net Assets	\$ 70,501	\$ 15,300
Adjustments to reconcile increase (decrease) in net assets to cash flows provided from operating activities		
Sales to homeowners', net	(592,776)	(753,606)
Mortgage loan discount amortization	(386,750)	(454,623)
Non-cash donations included in net assets	(233,233)	(197,609)
Write-down of inventory to net realizable value	264,878	-
Depreciation	52,457	55,384
Discount on gift annuity	44,161	173,526
Realized (gains) losses	(340,035)	(187,386)
(Increase) decrease in accounts receivable	(81,644)	316,807
(Increase) decrease in inventory	(33,687)	381,310
(Increase) decrease in prepaid expenses	16,503	7,001
(Increase) decrease in agency receivables	(640,562)	(744,731)
(Increase) decrease in refundable deposits	2,500	(2,500)
Increase (decrease) in accounts payable	110,534	242,380
Increase (decrease) in accrued salaries	2,157	7,069
Increase (decrease) in accrued interest	-	(35,390)
Increase (decrease) in agency payables	644,124	761,097
Increase (decrease) in other accrued liabilities	365	(11,815)
Increase (decrease) in deposits received	-	(55,680)
Net Cash Flows Provided From Operating Activities	<u>\$ (1,100,507)</u>	<u>\$ (483,466)</u>

Supplemental Disclosure of Non-Cash Activities

2009

In kind contributions included in the accompanying statement of financial position totaled \$233,233

2008

In kind contributions included in the accompanying statement of financial position totaled \$197,609

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

Habitat for Humanity Tucson, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2009

	Program Services	Program HabitStore	Management and General	Fund Raising	Total
Grants and other assistance to governments and organizations in the U.S.	\$ 27,260	\$ -	\$ -	\$ -	\$ 27,260
Compensation of current officers, directors, trustees, & key employees	196,111	73,998	49,055	105,300	424,464
Other salaries and wages	349,718	124,372	76,939	95,622	646,651
Pension plan contributions, including 401k and 403b employer contributions	11,959	4,718	2,925	5,995	25,597
Other employee benefits	92,713	30,543	44,853	27,867	195,976
Payroll taxes	42,603	15,646	9,381	14,537	82,167
Fees for services (non-employees):					
Legal	8,886	-	196	-	9,082
Accounting	-	2,700	19,300	-	22,000
Investment management fees	-	-	250	-	250
Other	5,352	21,790	4,996	490	32,628
Advertising and promotion	98,458	42,495	4,592	79,994	225,539
Office expenses	16,398	9,970	12,070	7,539	45,977
Information technology	12,513	-	1,846	7,611	21,970
Occupancy	14,677	211,025	20,964	2,204	248,870
Travel	10,076	-	3,491	189	13,756
Conferences, conventions, and meetings	9,080	235	5,338	563	15,216
Interest	47,661	-	829	-	48,490
Depreciation and amortization	10,056	20,361	12,360	9,681	52,458
Insurance	59,356	27,759	4,176	943	92,234
Other expenses					
Construction costs	1,405,019	-	-	5,564	1,410,583
Land development costs	1,172,060	-	-	-	1,172,060
Habitstore cost of goods sold	-	760,163	-	-	760,163
Habitat International Tithe	40,000	-	-	-	40,000
Bank and credit card fees	-	9,220	1,397	5,199	15,816
Employee/volunteer retention	6,097	2,090	949	508	9,644
Equipment rent, repair & maintenance	7,241	6,204	4,095	1,896	19,436
Vehicle expenses	11,971	17,182	6,394	234	35,781
Special events	5,737	181	-	3,098	9,016
Mortgage servicing expenses	2,723	-	-	-	2,723
Miscellaneous expenses	8,405	366	432	484	9,687
	<u>\$ 3,672,130</u>	<u>\$ 1,381,018</u>	<u>\$ 286,828</u>	<u>\$ 375,518</u>	<u>\$ 5,715,494</u>

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

Habitat for Humanity Tucson, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2008

	Program Services	Program Habistore	Management and General	Fund Raising	Total
Grants and other assistance to governments and organizations in the U.S.	\$ 50,800	\$ 58	\$ -	\$ -	\$ 50,858
Compensation of current officers, directors, trustees, & key employees	178,045	77,434	50,457	115,763	421,699
Other salaries and wages	347,296	128,077	69,488	123,646	668,507
Pension plan contributions, including 401k and 403b employer contributions	11,109	3,968	2,127	6,215	23,419
Other employee benefits	80,978	32,418	33,296	28,777	175,469
Payroll taxes	40,810	15,053	9,188	16,896	81,947
Fees for services (non-employees):					
Legal	7,139	-	113	-	7,252
Accounting	-	700	16,300	-	17,000
Investment management fees	-	-	300	-	300
Other	19,005	39,190	13,459	2,948	74,602
Advertising and promotion	71,956	69,937	5,975	66,286	214,154
Office expenses	12,960	8,619	16,671	8,476	46,726
Information technology	3,075	30	675	4,637	8,417
Occupancy	15,049	200,192	26,969	2,778	244,988
Travel	5,305	1,103	754	1,353	8,515
Conferences, conventions, and meetings	4,551	591	4,160	2,566	11,868
Interest	88,269	-	12,570	-	100,839
Depreciation and amortization	11,386	22,915	13,459	7,624	55,384
Insurance	93,327	47,398	5,041	1,827	147,593
Other expenses					
Construction costs	2,161,240	-	-	4,449	2,165,689
Land development costs	311,984	-	-	-	311,984
Habistore cost of goods sold	-	823,718	-	-	823,718
Habitat International Tithes	40,000	-	-	-	40,000
Bank and credit card fees	-	9,416	2,493	4,654	16,563
Employee/volunteer retention	6,762	3,101	2,393	373	12,629
Equipment rent, repair & maintenance	5,639	5,949	4,617	2,771	18,976
Vehicle expenses	21,769	20,393	5,314	178	47,654
Special events	15,556	37	-	6,314	21,907
Mortgage servicing expenses	590	-	-	-	590
Miscellaneous expenses	6,241	650	17,507	878	25,276
	<u>\$ 3,610,841</u>	<u>\$ 1,510,947</u>	<u>\$ 313,326</u>	<u>\$ 409,409</u>	<u>\$ 5,844,523</u>

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

Habitat for Humanity Tucson, Inc.
Notes to the Financial Statements
For the Years Ended June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies

Organization

An independently and locally governed affiliate or franchise of Habitat for Humanity International; Habitat for Humanity Tucson, Inc., (Habitat) was incorporated as a tax-exempt nonprofit organization in the State of Arizona in 1980 and is primarily and directly responsible for its own operations. Habitat works to end poverty housing in Pima and Santa Cruz counties by creating opportunities for homeownership in partnership with low-income families and by making safe, decent, affordable housing a matter of community conscience and action. Habitat builds market-quality homes utilizing volunteer labor and sells each home to a qualified low-income family for little cash down and a 20-25 year non-interest bearing mortgage. Depending upon family size, Habitat requires each of its homebuyers to provide 200-400 hours of “sweat-equity” labor in its home construction program and/or in some other form of community service. In addition, each buyer is provided pre-purchase and post-purchase homeowner education and counseling. Habitat services all of its mortgages.

Habitat’s Program Services include not only its home construction program, homeowner educational services, volunteer management of over 5,500 community volunteers, and advocacy for affordable housing, but also ongoing and large scale land development projects (e.g. Corazon del Pueblo or “Program CDP”) and a retail operation (dba the HabiStore) that sells usable materials donated by retail businesses, contractors, other organizations and the general public at below cost prices. The proceeds from the HabiStore fund Habitat’s mission of eliminating poverty housing within the community.

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual basis of accounting and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The financial statements are classified based on the existence or absence of donor-imposed restrictions using the following classifications: permanently restricted, temporarily restricted and unrestricted. These classifications are defined as follows:

Permanently restricted net assets contain a donor-imposed restriction that stipulates that resources be maintained permanently, but permit Habitat to use or expend the income derived from the donated asset.

Temporarily restricted net assets contain donor-imposed restrictions that permit Habitat to use or expend the donated assets as specified and are satisfied either by the passage of time or by actions of Habitat.

Unrestricted net assets are not restricted by donors, or the donor-imposed restrictions have expired.

Habitat for Humanity Tucson, Inc.
Notes to the Financial Statements
For the Years Ended June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Contributions - Unconditional promises to give are recognized as revenue when the gifts' underlying promises are received by Habitat. Gifts of cash and other assets are reported as temporarily restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated restriction ends or purpose 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.

Sales to Homeowners - Sales to homeowners represent the sale of houses built by Habitat. The resulting mortgages are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The sales to homeowners presented in the statement of activities are net of this discount. Habitat recognizes the income from the sales to homeowners on the completed contract method.

Grants and Contracts - Habitat receives funding from several federal, state, county and city financial assistance programs that supplement its traditional funding sources. Revenues are recognized as qualifying expenses are incurred as defined in the underlying grant/contract agreements.

In-Kind Contributions - Contributions of donated non-cash assets are recorded at their fair values in the period received. Donated services are recognized in accordance with SFAS No. 116, *Accounting for Contributions Received and Contributions Made*, if the services (a) create or enhance non-financial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise need to be purchased by Habitat.

Cost Recognition/Constructions -In-Process

All direct material, labor, and equipment costs and those indirect costs related to home construction such as indirect labor, supplies and tool costs are recorded as construction-in-process on the statement of financial position as they are incurred. Land costs included in construction-in-process are stated at the lower of cost or the fair value at the date of the contribution. Included in land costs are any costs incurred in development. When revenue from the sale of a home is recognized, the corresponding costs are then expensed in the statement of activities as program services.

Advertising and Marketing

Habitat expenses advertising and marketing costs as they are incurred. Advertising and marketing expense totaled \$225,539 and \$214,154 in 2009 and 2008, respectively.

Property and Equipment

Acquisition of property and equipment in excess of \$500 are capitalized. Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets (generally 3 to 39 years).

Habitat for Humanity Tucson, Inc.
Notes to the Financial Statements
For the Years Ended June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Warranties

Beginning in 1997, Habitat provides a two-year warranty on the sale of homes. The warranty is generally for defects in materials and workmanship. Warranty costs are expensed when incurred.

Statements of Cash Flows

For the purposes of the statements of cash flows, Habitat considers only unrestricted highly liquid investments with an initial maturity of three months or less to be cash equivalents. Cash designated for long-term purposes or received with donor imposed restrictions limiting their use to long-term purposes are not considered cash equivalents for purposes of the statement of cash flows.

Mortgage Receivables

Mortgage receivables consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. Most of the mortgages have an original maturity of 20-25 years. These mortgages have been discounted at various rates ranging from 6.09% to 11.91% based on the prevailing market rates at the inception of the mortgages. Interest income (mortgage discount amortization) is recorded using the effective interest method over the lives of the mortgages. These accounts are considered held for sale. Receivables are considered past-due or delinquent when they are 30 days late.

Allowance for Doubtful Accounts for Mortgage Receivables

Habitat provides an allowance for doubtful accounts equal to the estimated uncollectible amounts. Habitat's estimate is based on historical collection experience and a review of the current status of accounts receivable. From time to time, Habitat provides some measure of mortgage payment relief or forbearance, as it sees fit and given a particular homeowner's circumstances. It is reasonably possible that Habitat's estimate of the allowance for doubtful accounts will change. Due to the nature and collection of the receivables, management has determined that all receivables are collectible, and accordingly, no allowance for doubtful accounts has been recorded for the years ended June 30, 2009 and 2008.

Income Taxes

Habitat for Humanity Tucson is a Section 501(c)(3) organization exempt from taxation under the Internal Revenue Code Section 501(a). Accordingly, no provision is made in the financial statements for federal and state income taxes.

Defined Contribution Plan

Certain employees are covered by defined contribution plans. The Organization's contributions to these plans are discretionary and are based on a percentage of employee compensation or employee contributions. These plans are funded on a current basis.

Habitat for Humanity Tucson, Inc.
Notes to the Financial Statements
For the Years Ended June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Use of Estimates in Preparing Financial Statements

Preparing the Organization's financial statements in conformity with accounting principles generally accepted in the United States of America (GAAP) requires management to make estimates and assumptions that affect reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

The financial statements include some amounts that are based on management's best estimates and judgments. The most significant estimates relate to allowance for uncollectible mortgages, inventory obsolescence, depreciation, mortgage discounts, amortization of mortgage discounts, fair market values of donations in-kind, and allocations of functional expenses. These estimates may be adjusted as more current information becomes available, and any adjustment could be significant.

Grant Receivables and Allowance for Doubtful Accounts

Grant receivables are stated at the amount the Organization expects to collect. Habitat maintains allowances for doubtful accounts for estimated losses resulting from the inability of its grantors and customers to make required payments. Management considers the following factors when determining the collectability of specific grantor accounts: grantor credit-worthiness, past transactions history with the grantor, current economic industry trends, and changes in grantor payment terms. If the financial condition of the Organization's grantors were to deteriorate, adversely affecting their ability to make payments, additional allowances would be required. Based on management's assessment, there was no allowance for both 2009 and 2008.

Inventories

HabiStore inventories are stated at the lower of cost (or if donated, at the approximate fair value at the date of donation) or market (net realizable value).

Inventories also include land held for development, construction-in-progress, and completed homes, and are stated at the lower of cost or market (net realizable value).

Agency Receivables and Payables

Agency receivables and payables represent mortgages receivable from homeowners on mortgages that have been sold to outside entities. Habitat continues to service these mortgages and remit payments on a recurring basis to the outside entities.

Financial Statement Presentation

Certain amounts in the 2008 financial statements have been reclassified to conform to the 2009 presentation.

Habitat for Humanity Tucson, Inc.
Notes to the Financial Statements
For the Years Ended June 30, 2009 and 2008

Note 1 - Summary of Significant Accounting Policies (Continued)

Mortgage Receivable Sales

At times, Habitat sells receivables in securitizations of residential mortgage loans, and obtains servicing assets or servicing liabilities that are initially measured at fair value. Gain or loss on sale of the receivables depends in part on both the previous carrying amount of the financial assets involved in the transfer and the proceeds received. To obtain fair values, quoted market prices are used if available. However, quotes are generally not available for interests that continue to be held by Habitat, so management generally estimates fair value based on the present value of future expected cash flows estimated using management's best estimates of the key assumptions – credit losses, prepayment speeds, forward yield curves, and discount rates commensurate with the risks involved.

Retrospective Application of a Change in Accounting Principle

In 2009, Habitat adopted FASB Staff Position (FSP) FAS 117-1, *Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted version of the Uniform Prudent Management of Institutional Funds Act, and Enhanced Disclosures for All Endowment Funds*, which requires all investment earnings, realized and unrealized appreciation and depreciation of endowments to be classified as temporarily restricted net assets until they are appropriated for expenditure. The effect of this change was to decrease temporarily restricted net assets by \$150 in 2007 and increase unrestricted net assets by the same amount. As well as decrease temporarily restricted net assets by \$1,395 and increase unrestricted net assets by the same amount in 2008. The financial statements for 2008 (including beginning unrestricted and temporarily restricted net assets) have been retroactively restated for the change.

Note 2 - Cash Restricted

Cash restricted at June 30, 2009 and 2008 consisted of the following:

	<u>2009</u>	<u>2008</u>
Temporarily Restricted		
Pasqua Yaqui/Habitat contract funds	101,192	78,455
Contributions temporarily restricted	<u>197,325</u>	<u>267,460</u>
	<u>\$ 298,517</u>	<u>\$ 345,915</u>

Note 3 – Inventories

Inventories for the year ended June 30, 2009 and 2008 included 6 and 47 additional lots on scattered sites across Pima and Santa Cruz counties. Construction and/or preparation on 11 homes were included in construction in progress for the year ended June 30, 2009; and 11 homes were under construction during the year ended June 30, 2008.

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Note 3 – Inventories (continued)

Also included in land for construction for 2009 and 2008 are 75 and 81 lots at the Corazon Del Pueblo development which are valued at \$2,484,878 and \$2,407,365, respectively. Included in that amount is interest expense that has been capitalized in the amount of \$368,106 for 2009 and \$356,849 for 2008.

As of June 30, 2009 and 2008 inventories consists of the following:

	<u>2009</u>	<u>2008</u>
Land for construction	\$ 2,302,056	\$ 2,763,504
Construction in progress	417,212	394,473
Building supplies and materials	24,438	39,404
Completed/foreclosed homes	150,245	53,743
HabiStore inventory	<u>208,795</u>	<u>156,426</u>
	<u>\$ 3,102,746</u>	<u>\$ 3,407,550</u>

Note 4 – Property and Equipment

Property and equipment consist of the following:

	<u>2009</u>	<u>2008</u>
Land	\$ 31,000	\$ 31,000
Building	98,316	98,316
Building Improvements	143,492	143,492
Vehicles and trailer	88,091	83,381
Office and construction equipment and furniture	<u>159,198</u>	<u>146,582</u>
	520,097	502,771
Accumulated depreciation	<u>220,433</u>	<u>175,729</u>
	<u>\$ 299,664</u>	<u>\$ 327,042</u>

Note 5 – Sales to Homeowners

During the year there were 14 homes sold to qualifying applicants (17 homes sold for 2008). Sales to homeowners represent the sales of these homes. The resulting mortgages are non-interest bearing and the presentation of their book value have been discounted based upon the prevailing market rates for low-income housing at the inception of the mortgages (current years – 7.77% for 2009 and 8.00% for 2008). The gross amount and discount on sales to homeowners presented in the statement of activities and changes in net assets are as follows:

	<u>2009</u>	<u>2008</u>
Gross sales to homeowners	\$ 1,324,843	\$ 1,669,877
Discount on sales to homeowners	<u>732,068</u>	<u>916,271</u>
Net sales to homeowners	<u>\$ 592,775</u>	<u>\$ 753,606</u>

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Note 6 – Mortgages Receivable

Habitat directly finances all of the homes that it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. Habitat discounts the mortgages using the current interest rates at the time the home is sold. The discount is amortized using the effective interest method. Mortgages receivable as of June 30, 2009 and 2008 are as follows:

	<u>2009</u>	<u>2008</u>
Mortgages receivable at face value	\$ 8,928,129	\$ 9,227,176
Unamortized discounts on mortgages	<u>4,113,861</u>	<u>4,288,203</u>
	<u>\$ 4,814,268</u>	<u>\$ 4,938,973</u>

Future collections on these mortgages will be received over the next five years as follows:

2010	\$ 582,734
2011	579,943
2012	574,927
2013	565,411
2014	550,286
Thereafter	<u>6,074,828</u>
Total	<u>\$ 8,928,129</u>

Mortgage receivables that were 90 + days late amounted to \$2,820 on a balance of \$169,402 in 2009 and \$5,115 on a balance of \$519,228 in 2008.

Note 7 – Transfer of Mortgages Receivable Qualifies as a Sale

During 2009, Habitat sold certain mortgages receivable (“Receivables”) as part of its plan to reduce debt. The net book value of Receivables sold was \$350,411 for which Habitat received \$556,603 in cash proceeds and recognized a gain of \$206,192. In 2008, Habitat sold similar Receivables with a net book value of \$412,507 for cash proceeds of \$617,292 and a recognized gain of \$204,785. These transactions were accounted for as sales and as a result the related Receivables have been excluded from the Mortgage Receivables accounts on the accompanying Comparative Statements of Financial Position.

The agreements underlying the 2008 and 2007 sales of Receivables contain provisions that indicate that Habitat is responsible for 100% of homeowner payment defaults on sold Receivables, and in the event a loan is delinquent by ninety (90) days or more, Habitat shall use its best efforts to replace the nonperforming loan with a substitute loan of equal interest rate and a maturity date not longer than the nonperforming loan.

Additionally, Habitat services the sold Receivables whereby it continues collecting payments from the homeowners on behalf of the purchasers of the Receivables. Habitat reports these amounts as agency receivables and agency payables on the Statement of Financial Position that do not have any effect on the changes in net assets. Habitat received \$700 and \$0 in service income from these arrangements for 2009 and 2008, respectively.

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Note 8 – Long-Term Debt

The components of long-term debt for the years ended June 30, 2009 and 2008 are as follows:

	2009	2008
\$3,000,000 line of credit. Interest due in monthly installments calculated at the Libor rate plus 1%. The principal is due and payable in December 2009. Secured by deeds of trust.	\$ 1,203,842	\$ 1,503,842
\$250,000 note payable due in monthly installments of \$2,716, including 5.5% interest through July 2011, with a balloon payment of \$144,268 in August 2011. Secured by deeds of trust.	192,725	214,065
\$175,000 revolving line of credit, secured by deeds of trust due April 2010. Interest payments calculated on the outstanding balance at 2% per annum is due and payable each month. The line is revolving and therefore any remaining outstanding balance is renewed on an annual basis.	175,000	175,000
0% construction note payable to Habitat for Humanity International as part of the SHOPS grant. Note is payable in monthly installments of \$703 beginning July 2011 through July 2015.	33,750	3,750
\$1,000,000 line of credit. Interest due in monthly installments calculated at 1.25% below the prime rate. Paid off and closed in July 2008.	-	500,000
7% mortgage note payable due in monthly installments of \$1,577, paid off in May 2009.	-	161,284
	1,605,317	2,557,941
Less: current portion of long-term debt	1,401,404	2,211,787
	\$ 203,913	\$ 346,154

As of June 30, 2009, the annual maturities of long-term debt maturities are as follows:

2010	\$ 1,401,404
2011	23,839
2012	154,761
2013	8,436
2014	8,436
Thereafter	8,441
Total	\$ 1,605,317

Substantially all assets of Habitat, including all receivables and fixed assets have been pledged as collateral for the various lines of credits.

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Note 8 – Long-Term Debt (continued)

On September 3, 2009, Habitat signed a loan modification effectively dated April 17, 2009, reducing a line of credit from \$1,000,000 to \$175,000 and extending the maturity date to April 17, 2010. With this modification, Habitat has no available balance under this line of credit.

Note 9 – Investments

Land held for investment represents donated or purchased properties that are currently unavailable for the construction of homes. These properties have been recorded at cost or their estimated fair values at the time of donation. The carrying values for these properties are \$329,329 in 2009 and \$981,860 in 2008. The estimated fair values of the properties based on assessor's values and offered sales prices are \$1,130,799 for 2009 and \$1,127,047 for 2008.

During 2009, Habitat sold a large piece of land held for investment for \$1,100,000. The net gain from the sale was \$133,843 and is included in "Realized gain (losses)" in the 2009 Statement of Activities and Changes in Net Assets. Also during 2009, Habitat transferred a parcel of land from Inventories to Investments because they do not plan to develop the lots in their operations, and are actively trying to sell the land for a profit.

Note 10 – Gift Annuity

In 2001, Habitat received a beneficial interest in a gift annuity funded with a marketable security valued at \$474,504. Since the gift annuity will not be received until the death of the joint interest donors, the gift value has been discounted over the estimated remaining life of the donors. During 2008, Habitat Tucson found out more information about the gift annuity which is held at Habitat International. Under the terms of the annuity agreement, the donor will receive annual payments of approximately \$35,000 during their lifetime and Habitat will receive payment of the remaining principal upon the termination of the joint and survivor annuity. The breakdown of the gift annuity valuation is as follows:

	2009	2008
Market value of investments	\$ 284,638	\$ 339,853
Valuation of lifetime annuity payout	266,511	277,565
	\$ 18,127	\$ 62,288

Note 11 – Operating Leases

The HabiStore Home Improvement Center operates out of leased facilities acquired in August 2005. The lease is a five (5) year lease that calls for monthly payments of \$13,689 (plus applicable taxes and charges) with 3.5% annual increases in base lease costs. Habitat also has the option to renew the lease for an additional two (2) two (2) year periods for a total of four (4) additional years. Total lease payments for the years ended June 30, 2009 and 2008 are \$184,951 and \$172,969 respectively.

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Note 11 – Operating Leases (continued)

Future minimum payments for the next five years are as follows:

2010	\$	184,095
2011		99,730
2012		-
2013		-
2014		-
Total		<u>\$ 283,825</u>

In addition to leasing the HabiStore property, Habitat leases equipment through operating leases. Total lease payments for the equipment for the years ended June 30, 2009 and 2008 are \$7,905 and \$11,020, respectively.

Note 12 – In-Kind Contributions

Habitat receives many in-kind contributions of materials and supplies used in the construction and furnishing of its homes. Total amounts of contributed supplies and materials for the years ended June 30, 2009 and 2008 are \$324,740 and \$150,537, respectively. In addition to the materials and supplies, Habitat received 32,217 hours from volunteers helping the organization in 2009, 28,472 hours in 2008.

Habitat also received considerable non-cash contributions of furniture, household items, and other materials used for re-sale in the HabiStore. The total value of items donated for the years ended June 30, 2009 and 2008 were \$809,077 and \$800,238, respectively.

During the years ended June 30, 2009 and 2008 Habitat received gift cards in the amounts of \$12,000 and \$20,000, respectively, to be used for purchases at three local businesses. The remaining balances accumulated on all cards of \$21,342 and \$34,651 have been included in inventories for the years ended June 30, 2009 and 2008 respectively.

During 2008, Habitat received a 1999 Ford F-250 SuperDuty pickup truck valued at \$5,000 and a 1998 Chevrolet C-150 pickup truck valued at \$5,780. These items have been included in property and equipment and are being depreciated based on these estimated values.

Note 13 – Deposits Received

Deposits received consist of down payments from homeowners and escrow deposits from the builders involved in the Corazon Del Pueblo project. Deposits held for home sales are \$0 for 2009 and \$950 for 2008.

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Note 14 – Restricted Net Assets

At June 30, 2009 and 2008, temporarily restricted net assets consisted of the following items:

	2009	2008
Temporarily Restricted		
Pasqua Yaqui/Habitat contract funds	\$ 101,192	\$ 78,455
Gift annuity restricted until received	18,127	62,288
Contributions temporarily restricted	197,325	199,367
Endowment earnings temporarily restricted	(5,774)	(1,395)
	\$ 310,870	\$ 338,715

Permanently restricted net assets consist of an endowment fund to be held indefinitely. The income derived from the funds is restricted for the purchase of kitchen equipment for Habitat's various projects, if kitchen equipment is not needed (all kitchen appliances are currently being contributed) then Habitat can use the excess income for the general building program.

Note 15 – Commitments and Contingencies

In addition to the non-interest bearing mortgage received from the sale of each home, Habitat and/or various government agencies and/or government sponsored entities may issue a contingent second and third mortgage. The second mortgages, issued by Habitat, represent the excess of the market value over the original loan amount of each home sold. Should the homeowner payoff the mortgage early or default on the mortgage, the second mortgage would become due. The second mortgage payoff is considered less than probable or remote and therefore no receivable has been recorded in the financial statements. During the years ended June 30, 2009 and 2008, Habitat did collect \$13,319 and \$41,310, respectively of second mortgages that were paid off early. The third mortgages are issued by other governmental agencies, and represent the public contribution to the homes sold. The third mortgages would become due and payable upon the sale or transfer of the property and are never collected by Habitat, and therefore never reported on Habitat's financial statements.

In May 2003, Habitat entered into a contract with the Pasqua Yaqui tribe to build 22 homes for tribal members. Of these, five homes were located on the reservation and sold directly to the tribe and 17 homes were located off of the reservation to be sold directly to Pasqua Yaqui homeowners. Half of the principal payments from the mortgage receivables received by Habitat from the Pasqua Yaqui homeowners covered under this contract are deposited into an interest-bearing account, held by both Habitat and the Pascua Yaqui tribe, to be used for future home building projects and is included in the temporarily restricted funds. In 2006, the homeowner chosen by the Pascua Yaqui tribe for the final Balboa Laguna home resigned from the program and a replacement was not chosen. In January 2008, Habitat bought the remaining Balboa Laguna home from the Pascua Yaqui tribe for \$40,000 and closed on the home with an African refugee in June 2008. In June 2009, Habitat bought back another Pascua Yaqui home for \$46,000. As a result, Habitat and the Pascua Yaqui tribe agreed to reduce the number of homes in the agreement to 20 homes.

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Note 16 – Defined Contribution Retirement Plan

Effective July 2001 Habitat initiated a 401(k) defined contribution plan (401(k) Plan) to provide retirement and incidental benefits for its employees. Under the Plan, all employees who had completed one (1) year of service who agree to make contributions to the Plan were eligible to receive matching contributions. During 2008, the Plan was amended to allow all full-time employees to make contributions to the Plan (the one year of service requirement was eliminated for employee contributions, not for employer matching). Habitat makes discretionary matching contributions to the Plan that meet safe-harbor requirements as described by the Plan document. For the years ended June 30, 2009 and 2008, there were matching contributions of \$25,597 and \$23,420, respectively.

Note 17 - Concentration of Credit Risk and Fair Value of Financial Instruments

Fair Value

Cash, cash equivalents, and note payables: The carrying amounts reported in the statements of financial position approximate fair values because of the short maturities of these instruments.

Mortgage receivables: The mortgage receivables is estimated by discounting the future cash flows using various rates based on the prevailing market rates at the inception of the mortgages.

Credit and Operational Risk

Because Habitat's programs are concentrated in Pima County, Arizona, the amount of contributions, home sales and collection of mortgage receivables may be affected by changes in economic or other conditions which affect this locale.

In addition to this geographic concentration risk, management also notes the following risk factors that may affect the corporation's future ability to carry out its mission, including: the organization's ongoing dependency on donations as a significant portion of total operating revenue; the rate at which the organization collects its long-term mortgage receivables versus the obligations presented by the organization's short-term liabilities, as well as the lack of free cash flow relative to the organization's annual debt service coverage; the limited marketability of the mortgage receivables for resale; the insufficient amount of cash on hand relative to the organization's short-term liabilities and operational obligations; and the increasing cost of construction and its affect on both the affordable house pricing for the organization's clients and the liquidity of the organization.

Cash and cash equivalents are primarily maintained with major financial institutions in the United States. Deposits held with these institutions may, at times, exceed the amount of insurance provided on such deposits. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk to cash. Generally, these deposits may be redeemed upon demand.

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Note 18 – HabiStore Home Improvement Center

In January 2006, Habitat opened a retail thrift store that specializes in selling surplus new and used building and home improvement materials, appliances and furniture to the public. The HabiStore receives donated usable materials from retail businesses, contractors, individuals and other organizations. These donors receive tax deductions for the sales values of these items from Habitat due to their 501(c)(3) non-profit designation.

All net proceeds from the operation of the HabiStore flow into the Habitat organization and help to enhance Habitat's non-profit mission-related activities. During the year ended June 30, 2009 HabiStore contributed a net operating profit of \$233,756 which includes an increase in inventory of \$52,369. For the year ended June 30, 2008 HabiStore contributed a net operating profit of \$71,967, which included a decrease in inventory of \$25,250.

Note 19 – Corazon Del Pueblo Project

In November 2004, Habitat purchased 70.53 acres of land. The land was platted for approximately 393 lots known as Corazon Del Pueblo Residential Cluster project. All infrastructures have been installed and land developed with the exception of common area sidewalks (which are 95% complete for the total project and 100% in areas with occupied houses) and landscaping. Habitat has thus far sold 304 lots to other builders. Habitat has closed on 14 houses within the project and at June 30, 2009, there were 75 lots available for Habitat's mission. If market conditions improve, Habitat may choose to sell up to 29 more lots and use the remaining 46 lots for the construction of future Habitat projects. Habitat financed the purchase and development of the land through an acquisition loan of \$3,250,000. The acquisition loan was replaced with an \$8,000,000 non-revolving construction loan that was secured by the assets and revenues of Habitat. That loan and all debt associated with it was retired in February 2007. During the year ended June 30, 2009, Habitat did not sell any of the developed lots. During the year ended June 30, 2008, Habitat sold 2 developed lots for \$60,166. The total number of lots and homes sold to date is 318 for \$9,594,418.

Note 20 – Related Party Transactions

Habitat's broker for the acceptance and immediate sale of stock gifts is also a member of Habitat's Board of Directors. For this service, a transaction fee is charged, and during the year ended June 30, 2009, on \$23,744 worth of stock gifts, the broker transaction fee was \$281. During the year ended June 30, 2008, there were a total of 4 stock donations, totaling \$36,089 and transaction fees totaling \$194.

Habitat is currently negotiating an agreement with an outside home developer to pay the developer to oversee building out houses to a certain point for Habitat volunteers to finish. This agreement is not finalized yet. A senior member of management of this outside home developer also serves on Habitat's Board of Directors.

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Note 20 – Related Party Transactions (continued)

One of Habitat's Board Members is the supervisor of Habitat's 401(k) investment manager. The Board Member receives no monetary compensation for this from Habitat.

Several members of the management team at Habitat serve on the Corazon del Pueblo Home Owners' Association Board of Directors (CDP is still considered a developer owned project). No additional compensation is received from either organization for these duties.

A senior member of management of Habitat is a Board Member of the Southern Arizona Land Trust, the other landholder at Corazon del Pueblo.

A senior member of management of Habitat serves on the City of Tucson's Housing Commission and the City of Tucson's Independent Audit Commission.

A senior member of management served on the Board of Directors for the Tucson Urban League. During 2009, Habitat purchased two homes from the Tucson Urban League for approximately \$168,000 for rehabilitation before selling them to qualified home owners.

A member of the board of directors is a real estate agent who completed a real estate lot donation for Habitat in December 2008. The board member was not compensated for their services.

The chairman of Habitat's audit committee is also the treasurer of the board of directors for the community foundation which manages the endowment funds for Habitat. The chairman is not compensated by either organization. Total funds under management of the community foundation for the years ended June 30, 2009 and 2008 were \$14,227 and \$18,605, respectively.

Note 21 – Settlement with Granite Construction

In 2008, Granite Construction Company advised Habitat that Granite is undergoing an audit with the Arizona Department of Revenue related to certain transaction privilege taxes payable by Granite. Granite contracted with Habitat on a time and materials basis for certain site improvements at the Corazon del Pueblo subdivision developed by Habitat. Although Granite never invoiced Habitat for any transaction privilege taxes related to the work performed by Granite and the contract between Granite and Habitat is unclear as to who should bear the burden of such taxes, Granite notified Habitat that if the Arizona Department of Revenue should assess transaction privilege tax against Granite for the Corazon del Pueblo project, Granite would seek to recover that amount from Habitat.

During 2009, Granite and Habitat came to an agreement whereby Habitat would pay Granite \$160,000 (\$80,000 due on April 1, 2009 and \$80,000 due on July 10, 2009). The \$80,000 due on July 10, 2009 was included in Accounts Payable on the accompanying Statement of Financial Position.

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Note 22 – Losses Resulting from the Write-Down of Inventory to Its Net Realizable Value

Due to changing market conditions in the real estate industry, a provision for inventory losses of \$264,878 was charged to “Program services – Land” in 2009 to write down land inventory to its net realizable value. This was based on Habitat’s best estimate of value for the parcels of land. It is at least reasonably possible that the estimates used by Habitat to determine its provision for inventory losses will be materially different from the actual amounts or results.

These differences could result in materially higher than expected inventory provisions, which could have a materially adverse effect on the Organization’s results of operations and financial condition in the near term.

Note 23 – Subsequent Events

All subsequent events were considered through October 20, 2009. In August 2009, Habitat came to an agreement with the Tucson Urban League whereby a member of Habitat’s senior management would act as an interim part time member of senior management for the Tucson Urban League. In exchange for the services, the Tucson Urban League’s main grantor has agreed to share half of this person’s salary through a restricted gift made directly to Habitat.

Note 24 – Endowment Funds

The Organization’s endowment investment consists of a mix of 55-60% equities, 30-40% fixed income funds, and up to 5% hedge funds. The endowment consists solely of donor-restricted funds. As required by generally accepted accounting principles, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors of Habitat has interpreted the State Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, Habitat classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets is classified as temporarily restricted net assets until those amounts are appropriated for expenditure. Habitat has invested the \$20,000 endowment fund with a local community foundation that has taken over the responsibilities of determining what amounts are appropriated for expenditure by Habitat.

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Note 24 – Endowment Funds (continued)

Investment Return Objectives, Risk Parameters and Strategies

Habitat has adopted investment and spending policies, approved by the Board of Directors, for endowment assets that attempt to provide a predictable stream of funding to programs supported by its endowment funds while also maintaining the purchasing power of those endowment assets over the long-term. The management of the endowment funds has been turned over to a local community foundation specializing in the management of endowment funds.

Spending Policy

Habitat's objective is to maintain the purchasing power of the endowment assets as well as provide additional real growth through new gifts and investment return. The local community foundation managing Habitat's endowment is responsible for appropriating amounts available for Habitat's distribution.

The composition of endowment net assets and the changes in endowment net assets as of June 30, 2009 and 2008 is as follows:

	<u>Temporarily Restricted</u>	<u>Permanently Restricted</u>	<u>Total</u>
Endowment net assets, June 30, 2007	\$ (150)	\$ 20,000	\$ 19,850
Contributions	-	-	-
Investment income (net of expenses)	336	-	336
Net appreciation (depreciation)	<u>(1,581)</u>	<u>-</u>	<u>(1,581)</u>
Endowment net assets, June 30, 2008	(1,395)	20,000	18,605
Contributions	-	-	-
Investment income (net of expenses)	331	-	331
Net appreciation (depreciation)	<u>(4,710)</u>	<u>-</u>	<u>(4,710)</u>
Endowment net assets, June 30, 2009	<u>\$ (5,774)</u>	<u>\$ 20,000</u>	<u>\$ 14,226</u>

Note 25 – Advertising and Marketing Costs

The following costs are included in advertising and marketing costs:

	<u>2009</u>	<u>2008</u>
Advertising and Marketing Costs		
Direct advertising and marketing	\$ 39,883	\$ 55,781
Direct mail campaigns	99,101	113,192
Donated in-kind advertising	75,854	30,299
Newsletters	<u>10,701</u>	<u>14,882</u>
	<u>\$ 225,539</u>	<u>\$ 214,154</u>