

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

For the Years Ended June 30, 2010 and 2009

Jones & Roth

CPAs & Business Advisors

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
FINANCIAL STATEMENTS
For the Years Ended June 30, 2010 and 2009

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Willamette West Habitat for Humanity, Inc.
Hillsboro, Oregon

We have audited the accompanying statements of financial position of Willamette West Habitat for Humanity, Inc. (a nonprofit organization) as of June 30, 2010 and 2009, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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 Willamette West Habitat for Humanity, Inc. as of June 30, 2010 and 2009, and the changes in its net assets and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 5, 2010, on our consideration of Willamette West Habitat for Humanity, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audits.

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Our audits were conducted for the purpose of forming an opinion on the basic financial statements of Willamette West Habitat for Humanity, Inc. taken as a whole. The accompanying schedule of expenditures of federal awards and related notes are presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations* and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Jones & Roth PC

Jones & Roth, P.C.
Hillsboro, Oregon
November 5, 2010

FINANCIAL STATEMENTS

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
 STATEMENTS OF FINANCIAL POSITION
 June 30, 2010 and 2009

	2010	Restated 2009
Assets		
Current assets		
Cash and cash equivalents	\$ 657,106	\$ 344,409
Investments	126,644	185,817
Mortgages receivable, net of unamortized discounts - current portion	159,699	72,082
Other receivables	479	47,397
Inventories of land and building projects under construction and finished houses	1,545,161	1,724,952
Prepaid expense and deposits	40,027	32,272
Total current assets	2,529,116	2,406,929
Mortgages receivable, net of unamortized discounts - long-term portion	1,771,350	1,173,332
Property and equipment, net	73,192	12,718
Total assets	\$ 4,373,658	\$ 3,592,979
Liabilities and Net Assets		
Current liabilities		
Accounts payable and accrued expenses	\$ 89,033	\$ 36,719
Line of credit	478,800	324,000
Current portion of notes payable	61,624	396,616
Current portion of deferred lease incentive	6,110	-
Total current liabilities	635,567	757,335
Long-term debt		
Notes payable, net of current portion	1,360,554	441,268
Deferred lease incentive, net of current portion	30,478	-
Total long-term debt	1,391,032	441,268
Total liabilities	2,026,599	1,198,603
Net assets		
Unrestricted	2,186,594	2,298,748
Temporarily restricted	160,465	95,628
Total net assets	2,347,059	2,394,376
Total liabilities and net assets	\$ 4,373,658	\$ 3,592,979

The accompanying notes are an integral part of these statements.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
 STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
 For the Year Ended June 30, 2010

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains, and other support			
Contributions and grants	\$ 804,625	\$ 193,766	\$ 998,391
Investment income	5,793	-	5,793
Mortgage discount amortization	86,783	-	86,783
Contributed services and materials	174,466	-	174,466
Sale of houses	2,094,662	-	2,094,662
Gain on sale of assets	-	-	-
Net assets acquired from affiliate	1,664	-	1,664
Other income	48,261	-	48,261
	<u>3,216,254</u>	<u>193,766</u>	<u>3,410,020</u>
Total revenue, gains, and other support			
	<u>3,216,254</u>	<u>193,766</u>	<u>3,410,020</u>
Net assets released from restrictions			
Restrictions satisfied by payments	128,929	(128,929)	-
	<u>128,929</u>	<u>(128,929)</u>	<u>-</u>
Expenses			
Program services	3,273,335	-	3,273,335
Supporting services:			
Management and general	144,690	-	144,690
Fundraising	39,312	-	39,312
	<u>3,457,337</u>	<u>-</u>	<u>3,457,337</u>
Total expenses			
	<u>3,457,337</u>	<u>-</u>	<u>3,457,337</u>
Change in net assets	(112,154)	64,837	(47,317)
Net assets, beginning of year	<u>2,298,748</u>	<u>95,628</u>	<u>2,394,376</u>
Net assets, end of year	<u>\$ 2,186,594</u>	<u>\$ 160,465</u>	<u>\$ 2,347,059</u>

The accompanying notes are an integral part of these statements.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
For the Year Ended June 30, 2009

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue, gains, and other support			
Contributions and grants	\$ 501,468	\$ 273,781	\$ 775,249
Investment income	11,160	-	11,160
Mortgage discount amortization	143,568	-	143,568
Contributed services and materials	183,560	-	183,560
Sale of houses	973,000	-	973,000
Gain on sale of assets	100	-	100
Net assets acquired from affiliate	46,887	-	46,887
Other income	29,079	-	29,079
	<u>1,888,822</u>	<u>273,781</u>	<u>2,162,603</u>
Total revenue, gains, and other support			
	<u>1,888,822</u>	<u>273,781</u>	<u>2,162,603</u>
Net assets released from restrictions			
Restrictions satisfied by payments	<u>337,112</u>	<u>(337,112)</u>	<u>-</u>
Expenses			
Program services	1,521,760	-	1,521,760
Supporting services:			
Management and general	171,692	-	171,692
Fundraising	35,340	-	35,340
	<u>1,728,792</u>	<u>-</u>	<u>1,728,792</u>
Total expenses			
	<u>1,728,792</u>	<u>-</u>	<u>1,728,792</u>
Change in net assets	497,142	(63,331)	433,811
Net assets, beginning of year, restated	<u>1,801,606</u>	<u>158,959</u>	<u>1,960,565</u>
Net assets, end of year	<u>\$ 2,298,748</u>	<u>\$ 95,628</u>	<u>\$ 2,394,376</u>

The accompanying notes are an integral part of these statements.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2010

	Program Services	Management and General	Fundraising	Total
Cost of homes sold	\$ 1,859,023	\$ -	\$ -	\$ 1,859,023
Mortgage discounts in year of sale	953,834	-	-	953,834
Indirect construction costs	23,134	-	-	23,134
Donated services	42,889	51,982	-	94,871
Tithing	75,006	-	-	75,006
Depreciation	6,260	3,370	-	9,630
Interest	3,297	-	-	3,297
Salaries and payroll taxes	206,562	22,836	25,132	254,530
Printing, mailing, and publications	7,181	-	-	7,181
Insurance	9,782	5,159	-	14,941
Professional fees	19,585	27,728	-	47,313
Bank and collection service fees	8,850	7,666	-	16,516
Occupancy	23,812	12,088	733	36,633
Promotions	11,996	-	-	11,996
Office expense	6,702	3,401	206	10,309
Fees and licenses	1,000	305	-	1,305
Vehicle expense	7,906	-	-	7,906
Capital campaign	-	-	299	299
Other expenses	6,516	10,155	12,942	29,613
Total	\$ 3,273,335	\$ 144,690	\$ 39,312	\$ 3,457,337

The accompanying notes are an integral part of these statements.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Cost of homes sold	\$ 809,061	\$ -	\$ -	\$ 809,061
Mortgage discounts in year of sale	310,323	-	-	310,323
Indirect construction costs	23,404	-	-	23,404
Donated services	45,599	98,579	-	144,178
Tithing	48,981	-	-	48,981
Depreciation	3,486	-	-	3,486
Interest	3,281	-	-	3,281
Salaries and payroll taxes	181,071	26,202	19,766	227,039
Printing, mailing, and publications	6,078	-	-	6,078
Insurance	12,159	3,872	-	16,031
Professional fees	20,364	22,795	-	43,159
Bank and collection service fees	18,431	3,961	-	22,392
Occupancy	16,043	8,145	494	24,682
Promotions	9,802	-	-	9,802
Office expense	-	5,984	-	5,984
Fees and licenses	1,398	465	-	1,863
Vehicle expense	7,972	-	-	7,972
Other expense	4,307	1,689	15,080	21,076
	<u>4,307</u>	<u>1,689</u>	<u>15,080</u>	<u>21,076</u>
Total	<u>\$ 1,521,760</u>	<u>\$ 171,692</u>	<u>\$ 35,340</u>	<u>\$ 1,728,792</u>

The accompanying notes are an integral part of these statements.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
 STATEMENTS OF CASH FLOWS
 For the Years Ended June 30, 2010 and 2009

	<u>2010</u>	<u>2009</u>
Cash flows from operating activities		
Change in net assets	\$ (47,317)	\$ 433,811
Depreciation	9,630	3,486
Gain on sale of assets	-	(100)
Mortgage loan discount amortization	(86,783)	(143,570)
Mortgage discount adjustment	953,834	340,491
Pledges receivable	-	25,000
(Increase) decrease in operating assets:		
Inventories	179,791	(627,342)
Prepaid expenses and deposits	(7,755)	(30,358)
Other	46,918	(47,397)
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	52,314	(291)
Deferred lease incentive	36,588	-
	<u>1,137,220</u>	<u>(46,270)</u>
Net cash provided (used) by operating activities		
Cash flows from investing activities		
Net redemption (purchase) of investments	59,173	(103,799)
Purchase of equipment	(70,103)	(8,859)
Proceeds on sale of equipment	-	2,000
Repurchase of homes	-	159,239
Mortgages receivable issued to home-buyers	(1,741,317)	(615,769)
Mortgage payments received	188,630	152,682
	<u>(1,563,617)</u>	<u>(414,506)</u>
Net cash used by investing activities		
Cash flows from financing activities		
Proceeds from line of credit	478,800	324,000
Payments on line of credit	(324,000)	-
Proceeds from long term notes payable	985,910	431,380
Principal payments on notes payable	(401,616)	(356,404)
	<u>739,094</u>	<u>398,976</u>
Net cash provided by financing activities		
Net increase (decrease) in cash and cash equivalents	312,697	(61,800)
Cash and cash equivalents, beginning of year	<u>344,409</u>	<u>406,209</u>
Cash and cash equivalents, end of year	<u>\$ 657,106</u>	<u>\$ 344,409</u>
Supplemental disclosures of cash flow information		
Cash paid for interest	<u>\$ 18,879</u>	<u>\$ 27,900</u>

The accompanying notes are an integral part of these statements.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

1. Organization

Willamette West Habitat for Humanity, Inc. (Habitat) is a nonprofit organization incorporated in 1989. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nonprofit, ecumenical Christian organization dedicated to eliminating substandard housing worldwide and to making adequate, affordable shelter a matter of conscience and action. Habitat is founded on the conviction that every man, woman, and child should have a simple, decent, affordable place to live in dignity and safety. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat's activities are primarily focused in the suburbs west of Portland, Oregon (e.g., Beaverton, Aloha, and Hillsboro) but also cover Lake Oswego, West Linn, Tualatin, Sherwood, and other unincorporated areas of Washington County, Oregon.

2. Summary of Significant Accounting Policies

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America and accordingly reflect all significant receivables, payables, and other liabilities.

Basis of Presentation

The financial statements are classified 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. Habitat did not have any permanently restricted net assets as of June 30, 2010 and 2009.

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. Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized.

Expenses are reported as decreases in unrestricted net assets. Gains and losses on investments and other assets or liabilities are reported as increases or decreases in unrestricted net assets unless their use is restricted by explicit donor stipulation or by law. Expirations of temporary restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as net assets released from restrictions.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Revenue Recognition

Contributions – Contributions, including unconditional promises to give, are recognized as revenue in the period the commitment is received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give due in the next year are recorded at their net realizable value. Unconditional promises to give due in subsequent years are reported at the present value of their net realizable value using risk-free interest rates applicable to the years in which the promises are to be received. Contributions of assets other than cash are recorded at their estimated fair value.

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 at the inception of the mortgages. Habitat recognizes the income from the sales to homeowners on the completed contract method.

Grants and Contracts – Habitat received funding from several federal, state, county, and city financial assistance programs that supplement its traditional funding sources. Washington County and Habitat International have provided funding in the form of notes to Habitat. At the time of each sale, a portion of the obligation on certain notes payable with Washington County are transferred to the homeowner and recognized as revenue by Habitat. If the home is sold by the homebuyer within a specified time period (between 6 and 15 years), the homeowner is required to repay the obligation to Washington County. After year 15, the obligation is fully forgiven. The transferred obligations recognized as revenue amounted to \$355,000 for the years ended June 30, 2010 and 2009.

In-kind Contributions – Contributions of donated non-cash assets are recorded at their fair value in the period received. For the years ended June 30, 2010 and 2009, the net amount of in-kind contributions for donated equipment and materials, net of related expenses recognized as revenue, amounted to \$43,595 and \$34,782, respectively.

Donated services are recognized in accordance with generally accepted accounting principles, 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. For the years ended June 30, 2010 and 2009, \$130,871 and \$148,778, respectively, was recognized as in-kind contributions of specialized skills.

Cost Recognition/Construction-In-Process

All direct material, labor, and equipment costs are recorded as construction-in-process on the statements of financial position as they are incurred. Land costs included in construction-in-process are stated at cost or the fair value at the date of 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 statements of activities as program services.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Property and Equipment

Acquisitions of property and equipment in excess of \$1,000 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 10 years).

Deferred Lease Incentive

Habitat signed a 5-year operating lease during the year ended June 30, 2010, with an option to extend an additional five years. Under this agreement, Habitat received \$40,000 for leasehold improvements which is being amortized over the life of the lease and is included in occupancy expense in the statements of functional expenses.

Warranties

Habitat provides a 1-year warranty on all of their 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.

Investments

Investments primarily consist of certificates of deposits having maturities greater than three months. At times, Habitat receives donated stock from individuals. These investments are recorded at fair value based on quoted market rates. Investment income is reported as an increase in unrestricted net assets in the period in which the income and gains are recognized.

Mortgages Receivable

Mortgages receivable consist of non-interest-bearing mortgages which are secured by real estate and receivable in monthly installments. Mortgages receivable are considered past due and have the option to charge finance charges at 9 percent when the scheduled payment is more than 30 days late; however, Habitat generally does not assess a finance charge. Most of the mortgages have an original maturity of 20 to 40 years. These mortgages have been discounted at various rates ranging from 7.77 percent to 9.00 percent based on the prevailing market rates at the inception of the mortgages. Amortization of the discount is recorded as revenue using the straight-line method over the lives of the mortgages.

Allowance for Doubtful Accounts

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. 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, 2010 and 2009.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

2. Summary of Significant Accounting Policies, continued

Income Taxes

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

Advertising

Habitat expenses advertising costs as they are incurred.

Functional Allocation of Expenses

The costs of providing various program and supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates in Preparing Financial Statements

The preparation of financial statements in conformity with generally accepted accounting principles in the United States of America requires management to make estimates and assumptions that affect the 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 reported periods. Actual results could differ from those estimates.

3. Mortgages Receivable

Habitat directly finances all of the homes it sells. Each mortgage is issued as a zero-interest mortgage to the buyer. Habitat discounts the mortgages using the current interest rate at the time the home is sold. Mortgages receivable as of June 30 were as follows:

	2010	2009
Mortgages receivable at face value	\$ 4,242,454	\$ 2,689,768
Unamortized discounts	(2,311,405)	(1,444,354)
Total mortgages receivable, net of unamortized discounts	\$ 1,931,049	\$ 1,245,414

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

3. Mortgages Receivable, continued

Future collections on these mortgages, net of unamortized discounts, will be received over the next five years as follows:

Years Ending June 30,	
2011	\$ 159,699
2012	90,246
2013	90,246
2014	90,246
2015	89,427
Thereafter	<u>1,411,185</u>
Total	<u>\$ 1,931,049</u>

4. Investments

Investments as of June 30 were as follows:

	<u>2010</u>	<u>2009</u>
Certificates of deposit	<u>\$ 126,644</u>	<u>\$ 185,817</u>

5. Fair Value Measurements

Generally accepted accounting standards establish a framework for measuring fair value and enhance disclosures about fair value measurements. Fair value is defined as the exchange price in an orderly transaction between market participants to sell an asset or transfer a liability in the principal or most advantageous market for the asset or liability.

The framework for measuring fair value is based on independent observable inputs of market data and on the following hierarchy:

Level 1 – Quoted prices in active markets for identical assets and liabilities.

Level 2 – Significant observable inputs based on quoted prices for similar instruments in active markets, quoted prices for identical or similar instruments in markets that are not active, and model-based valuations for which significant assumptions are observable.

Level 3 – Significant unobservable inputs that are supported by little or no market activity that are significant to the fair value of the assets or liabilities.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

5. Fair Value Measurements, continued

As of June 30, 2010, the fair value measurement of the investments disclosed in Note 4 was as follows:

	<u>Fair Value Measurements</u>			<u>Assets (Liabilities)</u>	<u>Profit & Loss Classification</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets					
Investments	\$ 126,644	\$ -	\$ -	\$ 126,644	Investment income

As of June 30, 2009, the fair value measurement of the investments disclosed in Note 4 was as follows:

	<u>Fair Value Measurements</u>			<u>Assets (Liabilities)</u>	<u>Profit & Loss Classification</u>
	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>		
Assets					
Investments	\$ 185,817	\$ -	\$ -	\$ 185,817	Investment income

6. Inventories

Inventories as of June 30, 2010, included two houses currently under construction and six lots to be developed at Ramble Glen in Aloha, Oregon. Also included in inventory was one home repurchased by Habitat to rehabilitate and resell to a qualified buyer.

Habitat owns one lot at Vance Place in Aloha, Oregon to be built sometime in the future. In addition, Habitat owns two additional parcels of land in Beaverton and Hillsboro, Oregon and is currently planning to develop and build homes on these parcels over the next 3 to 5 years.

Inventories as of June 30, 2009, included three houses at Vance Place in Aloha, Oregon currently under construction, five lots to be developed, and two completed homes. Also included in inventory were three homes repurchased by Habitat to rehabilitate and resell to other qualified families. In addition, Habitat owns two additional parcels of land in Beaverton and Hillsboro, Oregon and is currently planning to develop and build homes on these parcels over the next 3 to 5 years.

Inventories at June 30 consisted of the following:

	<u>2010</u>	<u>2009</u>
Construction in progress	\$ 157,274	\$ 270,214
Finished homes	-	367,159
Land and land improvements	<u>1,387,887</u>	<u>1,087,579</u>
Total inventories	<u>\$ 1,545,161</u>	<u>\$ 1,724,952</u>

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

7. Property and Equipment

Property and equipment at June 30 consisted of the following:

	2010	2009
Construction equipment	\$ 9,998	\$ 7,210
Office equipment	15,328	16,697
Leasehold improvements	65,150	-
	90,476	23,907
Accumulated depreciation	(17,284)	(11,189)
Property and equipment, net	\$ 73,192	\$ 12,718

Depreciation expense for the years ended June 30, 2010 and 2009, was \$9,630 and \$3,486, respectively.

8. Lines and Letters of Credit

Habitat has a revolving line of credit with West Coast Bank for borrowings up to \$100,000, bearing interest at the bank's prime rate (3.25 percent at June 30, 2010 and 2009) plus 1.50 percent. Draws on this line are secured by inventory, chattel paper, and deposit accounts. This line of credit expired July 5, 2010. There was no balance outstanding on this line of credit as of June 30, 2010 and 2009.

Habitat had a secured line of credit with Columbia Community Bank for borrowings up to \$324,000, bearing interest at the bank's prime rate (3.25 percent at June 30, 2009). Draws on this line were secured by real property and improvements. This line of credit expired March 15, 2010, and was paid off during the year ended June 30, 2010. The balance on this line of credit was \$324,000 at June 30, 2009.

During November 2009, Habitat was extended a guidance line from Columbia Community Bank for a maximum \$1,000,000 in individual loans for the financing of single family lots or land. The guidance line expires November 15, 2010. The following line of credit was made under this agreement:

- Secured line of credit for borrowings up to \$478,800, bearing interest at the bank's prime rate (3.25 percent as of June 30, 2010). Draws on this line are secured by real property and improvements. This line of credit expires February 6, 2011. The balance on this line of credit was \$478,800 as of June 30, 2010. Subsequent to year end, Habitat paid down the line of credit in full.

Habitat has a secured revolving letter of credit with Columbia Community Bank for borrowings up to \$250,000, bearing interest at the bank's prime rate (3.25 percent at June 30, 2010 and 2009) plus 1.50 percent. Draws on this letter are secured by real property and improvements. This letter of credit expires November 15, 2010. There was no balance outstanding on this letter of credit as of June 30, 2010 and 2009.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

9. Notes Payable

Habitat has entered into several agreements with Washington County to support acquisition and development of land. These agreements are made under the HOME Investment Partnerships Act and are intended to carry out the provision of the HOME program for assistance to qualified low-income families. These loans are secured by land and are non-interest-bearing. The loans are transferred to the buyer at time of sale. Washington County subsequently forgives the loans with the homebuyer during the period of home ownership.

Habitat has entered into several agreements with Washington County to acquire foreclosed homes under the Neighborhood Stabilization Program (NSP). These loans are non-interest-bearing and are forgiven after 20 years.

Notes payable at June 30 consisted of the following:

	2010	Restated 2009
Note payable, Washington County. Interest only at 3% per annum beginning in 2000, payable annually. Balance due in full 2019. Secured by land and improvements.	\$ 110,000	\$ 110,000
Note payable, Washington County. Non-interest-bearing. This note will be cancelled in 2017. Secured by land.	70,000	70,000
HOME loan, Washington County, Oregon, due 2010.	-	355,000
HOME loan, Washington County, Oregon, due 2012.	257,359	234,538
HOME loan, Washington County, Oregon, due 2014.	467,193	-
NSP Note payable, Washington County. Unsecured. Due 2030.	191,883	-
NSP Note payable, Washington County. Unsecured. Due 2030.	185,579	-
NSP Note payable, Washington County. Unsecured. Due 2030.	60,234	-
Note payable, Habitat International. Non-interest-bearing. Due January 2013. Unsecured.	7,038	9,846
Note payable, Habitat International. Non-interest-bearing. Due January 2014. Unsecured.	19,692	22,500
Note payable, Community Housing Fund. Non-interest-bearing. Due June 2010. Unsecured.	-	36,000
Note payable, Community Housing Fund. Non-interest-bearing. Due November 2010. Unsecured.	53,200	-
	1,422,178	837,884
Current portion	(61,624)	(396,616)
Notes payable, net of current portion	\$ 1,360,554	\$ 441,268

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

9. Notes Payable, continued

Not included in this notes payable list is a \$710,000 HOME note payable to Washington County for the construction of ten homes in a 14-home development. The ten homes were completed during the fiscal year ended June 30, 2010, and transferred to the buyers at time of sale. When the homes were sold the corresponding portion of the note was removed from Habitat's books as the terms of the note had been met. Washington County is expected to cancel this note in November 2010 when the final paperwork is expected to be completed.

Maturities of notes are as follows:

Years Ending June 30,	
2011	\$ 61,624
2012	265,783
2013	240,635
2014	236,440
2015	-
Thereafter	<u>617,696</u>
Total	<u>\$ 1,422,178</u>

10. Interest Cost

Habitat capitalizes interest costs relating to the purchase of inventory as a component of the cost of inventory. The following is a summary of interest costs incurred during the years ended June 30:

	<u>2010</u>	<u>2009</u>
Interest cost capitalized	\$ 15,582	\$ 8,118
Interest cost expensed	<u>3,297</u>	<u>3,281</u>
Total	<u>\$ 18,879</u>	<u>\$ 11,399</u>

11. Financial Instruments with Concentrations of Credit Risk

Habitat maintains its cash and cash equivalents balances in two financial institutions located in Oregon. The balances were insured by the Federal Deposit Insurance Corporation up to \$250,000 in the years ended June 30, 2010 and 2009. At June 30, 2010 and 2009, there were no uninsured balances.

Financial instruments that potentially subject Habitat to concentrations of credit risk consist of mortgages receivable. The credit risk is limited through various monitoring procedures and liens placed on all homes. There were no bad debt expenses for the years ended June 30, 2010 and 2009.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

12. Contingencies

Certain amounts received or receivable under Habitat's contracts with Washington County are subject to audit and adjustment by the contracting agencies, the State of Oregon, and various agencies of the U.S. Government. Any expenditures or claims disallowed as a result of an audit would become a liability of Habitat's unrestricted funds. In the opinion of Habitat's management, any adjustments that might result from such audits would not be material to the overall financial statements.

Habitat may be liable for potential claims against them in regard to a specific clause in three homeowner deeds and one development property. Habitat is in the process of making necessary changes to the deeds. Habitat's management is unable to estimate the value of the potential liability.

13. Operating Lease Commitment

On September 1, 2004, Habitat entered into an operating lease for its administrative office and storage space through August 2009. This lease was terminated in December 2009.

In August 2009, Habitat entered into an operating agreement for a new administrative office and warehouse space through January 2015. This lease has an option to extend an additional five years as well as an option to purchase the space that expires in December 2014.

Commitments under the lease for the remaining lease term are as follows:

<u>June 30,</u>		
2011	\$	27,249
2012		28,062
2013		28,902
2014		29,870
2015		<u>19,390</u>
Total	\$	<u>133,473</u>

Rent expense for the years ended June 30, 2010 and 2009, was \$14,382 and \$15,375, respectively.

14. Transactions with Habitat for Humanity International

Habitat voluntarily remits annually a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used exclusively to construct homes in economically depressed areas around the world. For the years ended June 30, 2010 and 2009, Habitat contributed \$75,006 and \$48,981, respectively.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

15. Related Party Transactions

Donations and sponsorships are periodically made by Board members each year. Sponsorships are made specifically to fund homes that are to be developed during the year. Donations and sponsorships for the years ended June 30, 2010 and 2009, are included in revenue in the statements of activities and changes in net assets.

In-kind professional services were provided by a small number of Board members and their families. Services included tax services, engineering designs, and interpretations of those designs. The value of these services for the years ended June 30, 2010 and 2009, were \$4,812 and \$36,560, respectively.

On June 30, 2009, Habitat acquired assets from an affiliate of Habitat International, Pioneer Spirit Habitat for Humanity, Inc. (Pioneer Spirit), as discussed in Note 16. At June 30, 2009, there was a receivable from Pioneer Spirit of \$36,000.

16. Acquisition of Affiliate

As of June 30, 2009, Habitat acquired the assets of another affiliate of Habitat International (Pioneer Spirit) which served Clatsop County on the Oregon Coast. Habitat accounted for this under the pooling of interests method. Habitat received the assets of Pioneer Spirit, primarily cash and mortgages receivable. Net assets acquired were valued at \$46,887.

17. Restatement

During the year ended June 30, 2009, net assets were restated due to an error in classification of unrestricted contributions received as temporarily restricted and the release from restriction of those contributions.

During the year ended June 30, 2010, it was discovered that Washington County had previously forgiven a non-interest-bearing note payable of \$273,000. In addition, Habitat discovered a previously unrecorded note payable of \$70,000 with Washington County that is to be forgiven in 2017.

Accordingly, Habitat restated its net assets for the year ended June 30, 2008, as follows:

	<u>Unrestricted Net Assets</u>	<u>Temporarily Restricted Net Assets</u>
Net assets as of June 30, 2008, as previously reported	\$ 1,314,443	\$ 443,122
Change in classification of contributions and grants revenue	18,870	(258,870)
Change in classification of sale of houses	240,000	-
Change in net assets released from restrictions	25,293	(25,293)
Note payable previously forgiven	273,000	-
Unrecorded note payable	<u>(70,000)</u>	<u>-</u>
Change in net assets	<u>487,163</u>	<u>(284,163)</u>
Net assets as of June 30, 2008, as restated	<u>\$ 1,801,606</u>	<u>\$ 158,959</u>

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO FINANCIAL STATEMENTS

18. Subsequent Events

Management evaluates events and transactions that occur after the statement of financial position date as potential subsequent events. Management has performed this evaluation through the date of the auditor's report.

Subsequent Notes Payable

In June 2010, Habitat signed a HOME loan with Washington County for \$500,000. Subsequent to year end, Habitat drew down the entire \$500,000 on this loan. This loan is governed by the HOME Investment Partnerships Act and is intended to carry out the provision of the HOME Program for assistance of qualified low-income families. The loan is secured by land and is non-interest-bearing. This loan was used to pay off a loan incurred to purchase the land at Ramble Glen in Aloha, Oregon.

Subsequent to year end, Habitat renewed their \$100,000 revolving line of credit with West Coast Bank through July 5, 2011. The line of credit bears interest at the bank's prime rate plus 1.75 percent and is secured by inventory, chattel paper, equipment and deposit accounts.

Subsequent to year end, Habitat purchased a foreclosed home for \$171,152. This home was financed through a loan from Washington County with funds from the Neighborhood Stabilization Program (NSP). The loan is non-interest-bearing and is forgiven after 20 years.

FEDERAL AWARDS SECTION

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

To the Board of Directors
Willamette West Habitat for Humanity Inc.
Hillsboro, Oregon

We have audited the financial statements of Willamette West Habitat for Humanity Inc. (a nonprofit organization) as of and for the year ended June 30, 2010, and have issued our report thereon dated November 5, 2010. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered Willamette West Habitat for Humanity Inc.'s internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Willamette West Habitat for Humanity Inc.'s internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control over financial reporting.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A *material weakness* is a deficiency or combination of deficiencies in internal control such that there is a reasonable possibility that a material misstatement of the organization's financial statements will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

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Compliance and Other Matters

As part of obtaining reasonable assurance about whether Willamette West Habitat for Humanity Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Willamette West Habitat for Humanity Inc. in a separate letter dated November 5, 2010.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones & Roth PC

Jones & Roth, P.C.
Hillsboro, Oregon
November 5, 2010

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

To the Board of Directors
Willamette West Habitat for Humanity Inc.
Hillsboro, Oregon

Compliance

We have audited the compliance of Willamette West Habitat for Humanity Inc. (a nonprofit organization) with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) *Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2010. Willamette West Habitat for Humanity Inc.'s major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its major federal programs is the responsibility of Willamette West Habitat for Humanity Inc.'s management. Our responsibility is to express an opinion on Willamette West Habitat for Humanity Inc.'s compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Willamette West Habitat for Humanity Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination of Willamette West Habitat for Humanity Inc.'s compliance with those requirements.

In our opinion, Willamette West Habitat for Humanity Inc. complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2010.

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Internal Control over Compliance

Management of Willamette West Habitat for Humanity Inc. is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered Willamette West Habitat for Humanity Inc.'s internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Willamette West Habitat for Humanity Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency or combination of deficiencies in internal control over compliance such that there is a reasonable possibility that a material noncompliance with a type of compliance requirement of a federal program will not be prevented or detected and corrected on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of the Board of Directors, management, others within the organization, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Jones & Roth PC

Jones & Roth, P.C.
Hillsboro, Oregon
November 5, 2010

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
 For the Year Ended June 30, 2010

Federal Grantor/Pass-through Grantor/ Program Title	CFDA Number	Award Amount	Expenditures
U.S. Department of Housing and Urban Development			
Passed through Washington County:			
HOME Investment Partnerships Program	14.239	\$ 1,339,210	\$ 834,552
Neighborhood Stabilization Program	14.256	<u>498,645</u>	<u>437,696</u>
Total federal awards		<u>\$ 1,837,855</u>	<u>\$ 1,272,248</u>

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the Year Ended June 30, 2010

1. Purpose of Schedule

The accompanying schedule of expenditures of federal awards is a supplementary schedule to Habitat's financial statements and is presented for purposes of additional analysis. Because the schedule presents only a selected portion of activities of Habitat, it is not intended to and does not present the financial position, results of operations, or changes in net assets of Habitat.

2. Summary of Significant Accounting Policies

Reporting Entity

The reporting entity is described in Note 1 of Habitat's basic financial statements.

Basis of Accounting

The accompanying schedule of expenditures of federal awards includes all federal programs administered by Habitat for the year ended June 30, 2010, and is presented on the accrual basis of accounting.

3. Loan Funds

All federal funds expended through the HOME Investment Partnerships Program were loan funds. The loans are transferred to the buyer at time of sale. Washington County forgives the loans with the homebuyer during the period of home ownership.

All federal funds expended through the Neighborhood Stabilization Program were loan funds. These loans are forgiven after 20 years.

4. Insurance Coverage

For the year ended June 30, 2010, Habitat had insurance coverage as recommended by its insurance agent of record.

WILLAMETTE WEST HABITAT FOR HUMANITY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the Year Ended June 30, 2010

Summary of Audit Results

- (i) The auditor's report expresses an unqualified opinion on the financial statements of Habitat.
- (ii) No significant deficiencies in internal control were disclosed by the audit of the financial statements.
- (iii) No instances of noncompliance material to the financial statements were disclosed during the audit.
- (iv) No significant deficiencies in internal control were disclosed by the audit of the major federal award programs.
- (v) The auditor's report on compliance for the major federal award programs for Habitat expresses an unqualified opinion.
- (vi) The audit did not disclose any audit findings required to be reported.
- (vii) Programs tested as major programs were:
CFDA #14.238 HOME Investment Partnerships Program
CFDA#14.256 Neighborhood Stabilization Program
- (viii) The threshold for distinguishing between Type A and Type B programs was \$300,000.
- (ix) Habitat does not qualify as a low risk auditee.

Findings - Financial Statements and Internal Control over Financial Reporting

None.

Findings and Questioned Costs - Federal Awards

None.

WILLAMETTE WEST HABITAT.FOR HUMANITY, INC.
SCHEDULE OF PRIOR AUDIT FINDINGS
For the Year Ended June 30, 2010

There were no findings or questioned costs reported in the prior year.