

Cynthia C. Boykin, CPA

2236 Pineknoll Terrace
Burlington, NC 27217

AUDIT REPORT

Chatham Habitat for Humanity

For the period ended June 30, 2008

MEMBER

AICPA

NCACPA

AICPA-PCPS

Cynthia C. Boykin, CPA
2236 Pineknoll Terrace
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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Chatham Habitat for Humanity
Pittsboro, North Carolina

I have audited the accompanying statement of financial position of Chatham Habitat for Humanity (a nonprofit organization) as of June 30, 2008, and the related statements of activities, cash flows and other changes in unrestricted net assets for the year then ended June 30, 2008. These financial statements are the responsibility of the Organization's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

In my opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Chatham Habitat for Humanity as of June 30, 2008, and the changes in its net assets and its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

My audit was conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses on page 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Cynthia C. Boykin, CPA

Cynthia C. Boykin, CPA
Burlington, North Carolina

January 12, 2009

Chatham Habitat for Humanity
Statement of Financial Position
June 30, 2008

ASSETS

	\$	
Cash		67,289
Restricted Cash		9,582
Accounts Receivable		45,224
Prepaid Expenses		7,540
Inventory- Home Stores		59,541
Construction in Progress		298,784
Mortgages Receivable, net of \$ 1,678,692 unamortized discount		1,379,840
Subordinate Mortgages		859,620
Land Inventory		357,256
Deposits		22,971
Property and Equipment, net of accumulated depreciation		1,422,859
TOTAL ASSETS		\$ 4,530,506

LIABILITIES

Accounts Payable and Accrued Expenses		5,463
Escrows Payable		9,582
Notes Payable- Short-term		214,683
Current Liabilities		229,728
Notes Payable- Long-term		1,420,211
Discount on Low and Non-Interest Bearing Notes		-65,101
Total Liabilities		1,584,838

NET ASSETS

Unrestricted Net Assets		2,945,668
TOTAL LIABILITIES AND NET ASSETS		\$ 4,530,506

See accompanying auditor's report and notes to financial statements

Chatham Habitat for Humanity
Statement of Activities
June 30, 2008

<u>Unrestricted Revenues</u>	\$	
Contributions		501,043
Grants and Allocations		174,000
Home Sales (transfers to homeowners for mortgage loans)		635,500
Home Store Sales		676,291
Amortization of Discounted Mortgages		99,586
Amortization of Discounted Notes Payable		50,470
Total Unrestricted Support and Revenue		2,136,890
 <u>Expenses:</u>		
<u>Program Services</u>		
Home Ownership Program Expenses		950,272
Home Stores' Expenses		366,604
Home Stores' Cost of Goods Sold		100,326
Tithe to Habitat International		20,500
Discounts on Mortgages Issued		200,722
Discounts on Notes Payable		9,777
Total Program Services		1,648,201
 <u>Supporting Services</u>		
Administrative Expenses		137,235
Fundraising Expenses		146,481
Total Supporting Services		283,716
Total Expenses		1,931,917
 <u>Other Income:</u>		
Interest Income		12,029
Miscellaneous Income and Refunds		29,931
Net Gain on Sale of Assets		3,847
Total Other Income		45,807
Change in unrestricted net assets	\$	250,780
BEGINNING UNRESTRICTED NET ASSETS, As Restated		2,694,888
ENDING UNRESTRICTED NET ASSETS	\$	2,945,668

See accompanying auditor's report and notes to financial statements

Chatham Habitat for Humanity
Statement of Cash Flows
June 30, 2008

Cash Flows from Operating Activities:	\$	
Changes in Net Assets		250,780
Adjustments to Reconcile Changes in Net Assets to Net Cash Provided by Operating Activities:		
Depreciation		36,021
Amortization of Notes Payable Discounts		9,777
Discounts on New Notes Payable		(50,470)
Non-cash Contributions		(190,000)
Transfers (sales) to Homeowners, net of discounts		(434,778)
Amortization of Mortgage Discounts		(99,586)
Decrease(increase) in Receivables		(2,941)
Decrease(increase) in Prepaid Expenses		13,999
Decrease(increase) in Home Stores' Inventory		40,459
Decrease(increase) in Construction in Progress		(169,645)
Decrease(increase) in Deposits		1,286
Increase(decrease) in Accounts Payable		(6,065)
Increase(decrease) in Escrows Payable		(34,096)
Total Adjustments		<u>(886,039)</u>
Net Cash used by Operating Activities		<u>(635,259)</u>
 Investing Activities:		
Purchase of vehicles		(31,800)
Facility expansion		(526,095)
Land purchases and property development		(133,251)
Payments received on mortgages		462,736
Net Cash used in Investing Activities		<u>(228,410)</u>
 Financing Activities:		
Payments on Notes Payable-program		(89,771)
Payments on Notes Payable-expansion		(172,879)
Proceeds from Notes Payable		713,188
Net Cash provided by Financing Activities		<u>450,538</u>
 Net Increase(Decrease) in Cash		(413,131)
 Cash at June 30, 2007		<u>490,003</u>
 Cash at June 30, 2008		<u>\$ 76,872</u>

See accompanying auditor's report and notes to financial statements

Chatham Habitat for Humanity
Statement of Other Changes in Unrestricted Net Assets
June 30, 2008

Beginning balance at June 30, 2007		\$ 2,648,702
Effect of depreciating land purchased in 2002	\$ 35,631	
Reconciling mortgage receivables' balances at June 30, 2007	(5,775)	
Adjust for mortgage discount balance on home sold in 2006	<u>16,330</u>	<u>46,186</u>
Restated balance at June 30, 2007		<u>\$ 2,694,888</u>

See accompanying auditor's report and notes to financial statements

Chatham Habitat for Humanity
Statement of Functional Expenses
June 30, 2008

	\$
Salaries and Wages	591,933
Payroll Taxes	44,471
Employee Benefits	76,159
Total salaries and related expenses	712,563
Home Construction Costs	452,260
Cost of Goods Sold – Home Stores	106,306
Interest Expense	73,302
Insurance	56,356
Americorp Costs	43,221
Volunteer Expenses	22,938
Tithe to Habitat International	20,500
Professional Services	16,825
Vehicle Expenses	14,828
Telephone	10,668
Utilities	10,413
Advertising	7,349
Supplies	8,646
Postage and Shipping	7,661
Repairs and Maintenance	6,143
Recruitment	2,668
Other Supportive Services Costs	112,750
Total expenses before depreciation and amortization	1,685,397
Depreciation	36,021
Amortization	210,499
TOTAL FUNCTIONAL EXPENSES	\$ 1,931,917

See accompanying auditor's report and notes to financial statements

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE A: Organization and Operations

Chatham Habitat for Humanity (CHFH) is a non-denominational, Christian nonprofit organization incorporated in the State of North Carolina. Its primary goal is to partner with those in need of adequate housing to build simple, affordable and decent homes. CHFH is an affiliate of Habitat for Humanity International and operates exclusively in Chatham County. The Organization is supported through contributions, grants and its thrift stores.

CHFH administers a "home ownership program" which allows eligible participants to partner with Habitat personnel and volunteers in the construction of their future homes. Land and materials are purchased or donated.

The "Home Store" thrift stores receive donated items and resells to the general public. Proceeds are used to support the home ownership program.

Chatham Habitat for Humanity is a nonprofit organization as described in section 501(c)(3) under the Internal Revenue Code and is exempt from federal and state income taxes. Accordingly, no provision for income taxes has been made.

NOTE B: Summary of Significant Accounting Policies

1. Basis of Accounting:

The accompanying financial statements have been prepared on the accrual basis of accounting. The accrual basis recognizes revenues and expenses in the accounting period in which they are earned or incurred, regardless of when cash is received or disbursed.

2. Basis of Presentation:

Financial statements are prepared in accordance with Statement of Financial Accounting Standards (SFAS) 116 and SFAS 117.

SFAS 116, "Accounting for Contributions Received and Contributions Made", requires that contributions be recorded as unrestricted, temporarily restricted or permanently restricted depending upon the existence and/or nature of donor restrictions.

SFAS 117, "Financial Statements of Not-for-Profit Organizations" requires that information on financial position and activities be reported according to three classes of assets - unrestricted net assets, temporarily restricted net assets and permanently restricted net assets, based upon the existence or absence of donor-imposed restrictions.

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE B: Summary of Significant Accounting Policies (cont'd)

3. Cash and Cash Equivalents:

CHFH maintains cash and cash equivalents at local commercial banks. CHFH considers all unrestricted highly liquid investments to be cash equivalents.

4. Restricted Cash:

Restricted cash includes amounts received for insurance, property taxes and homeowners' dues not yet disbursed.

5. Accounts Receivable:

Receivables are recorded at their net realizable value when they are expected to be received within one year. CHFH does not recognize conditional promises to give as a receivable and recognizes a receivable only to the extent the condition giving rise to the contribution or grant has been met.

6. Inventory- Home Stores:

Inventory is recorded at its estimated net realizable value at June 30, 2008.

7. Construction in Progress:

These costs represent homes currently under construction for eligible homeowners, at cost. Cost includes all direct materials, land and skilled labor. Unskilled volunteer labor is not recorded. Costs are accumulated until the home is completed and transferred to the homeowner. The costs are then charged to program expenses.

8. Mortgages Receivable and Subordinate Mortgages:

Mortgages receivable are non-interest bearing notes, secured by real estate, and payable in monthly installments over twenty years. Transfers (sales to homeowners) are recorded at the gross mortgage amount. The mortgages have been discounted at the applicable federal rate at inception of the mortgages, ranging from 6% to 10%. The discounted amount is amortized over the term of the mortgage, using the effective interest method. Management has determined that there are no uncollectible accounts. Accordingly, an allowance for uncollectible mortgages has not been recorded.

Eligible homeowners must perform a predetermined number of "sweat equity" hours in partnership with CHFH and its volunteers. CHFH shares in the "immediate equity" and appreciation of the value of the home with mortgages closed prior to September 3, 1999. When five years has elapsed, the homeowners begin retaining an increasing amount of the initial equity, annually.

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE B: Summary of Significant Accounting Policies (cont'd)

8. Mortgages Receivable and Subordinate Mortgages (cont'd):

Mortgages closed after September 3, 1999 records "immediate equity" as subordinate mortgages. If a sale, refinance, destruction or encumbrance occurs within five years of purchase, the full amount of the subordinate mortgage becomes due.

9. Land Inventory:

Land inventory represents lots available for home construction. Purchased land is recorded at cost. Donated land is recorded at fair market value at the time of donation. Costs of improvements and development are capitalized as incurred.

10. Deposits:

Deposits are cash withheld by Habitat for Humanity International through the Accelerated Asset Recovery Program. CHFH receives the loan proceeds, net of one monthly payment.

11. Property and Equipment:

Property and equipment is stated at cost. Equipment is 5 to 9- year property depreciated over their estimated useful lives, using the straight-line method of depreciation. Buildings are depreciated over their estimated useful lives of 39 years, using the straight-line method of depreciation.

12. Escrows Payable:

Escrow payments are still held by CHFH and include amounts received for insurance, property taxes and homeowners' dues not yet disbursed.

13. Donated Furnishings and Services:

No amounts have been reflected in the financial statements for donated furnishings or services. CHFH pays for most services requiring specific expertise. However, individuals volunteer their time performing a variety of tasks that benefit programs and general operations. The value of donated furnishings could not be determined.

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE B: Summary of Significant Accounting Policies (cont'd)

14. Program Revenues and Support:

CHFH receives grants restricted to program activities and other unrestricted general support. Restricted support is reported as an increase in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets. Support received with restrictions that are met in the same year in which the support is received is classified as unrestricted support.

15. Advertising Costs:

Advertising costs are expensed as incurred.

16. Interest Costs:

Interest costs are capitalized while development is in progress.

17. Expense Allocation:

The costs of providing program services and other activities are reflected on the Statement of Activities. Accordingly, certain costs have been allocated to the program services benefitted.

18. Estimates:

The preparation of financial statements in conformity with generally accepted accounting principles 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 reporting period. Accordingly, actual results could differ from those estimates.

NOTE C: Accounts Receivable

Amounts recorded represent a \$9,000 allocation from United Way, a \$20,000 subsidy from the North Carolina Housing Finance Agency, \$14,342 in mortgage payments credited, but not yet remitted by the mortgage processor and a \$1,882 vendor refund.

NOTE D: Land Inventory

CHFH owns land ready for home construction and land currently being made ready for home construction.

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE D: Land Inventory (cont'd)

Land consists of the following:

Arrowpoint lots - 7235 Old US 421	\$ 40,163
Awtry property, Siler City	44,725
Brown St lots, Pittsboro	82,663
Patterson lot - Ninth St, Siler City	10,000
Leach property - Chatham Oak, Pittsboro	179,705
	<u>\$ 357,256</u>

NOTE E: Property and Equipment

In June 2007, the Organization reacquired a house from a homeowner and decided to convert the house into a community center for the neighborhood. The existing mortgage on the house, \$19,371 to the NC Housing Finance Agency, was paid September 17, 2007. Property and equipment consists of the following:

Office Furniture and Equipment	\$ 6,122
Machinery and Construction Equipment	9,850
Vehicles	83,019
Buildings- Office and Home Stores	581,420
Depreciable Property and Equipment	680,411
less: accumulated depreciation	- 105,968
Net Property and Equipment	\$ 574,443
Land- Office and Home Stores	568,910
Facility Expansion in Progress	224,833
Community Center- Anthony St	54,673
	<u>\$ 1,422,859</u>

NOTE F: Notes Payable

CHFH has a \$150,000 line of credit with a local bank renewed on September 21, 2007. The interest rate is the bank's prime rate plus .5%. Interest payments are due monthly and the Organization must maintain a zero balance for a period of thirty days within a twelve-month period. The line of credit is secured by all accounts and general intangibles, both current and future, of CHFH.

The buildings and land that currently house CHFH is security for two permanent loans with a local bank. The interest rates on both loans are fixed at 6%. The first loan, refinanced on April 8, 2005 for \$325,762 requires monthly payments of \$2,577.95 beginning May 17, 2005 with a balloon payment due April 17, 2010. The second loan, refinanced April 8, 2005 for \$360,000, requires monthly payments of \$2,578.98 beginning May 8, 2005 with a balloon payment due April 8, 2010.

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE F: Notes Payable (cont'd)

The following notes were payable at June 30, 2008:

Local Banks:	\$	
Line of Credit		75,000
Buildings- Office and Home Stores		288,213
Buildings- Office and Home Stores		332,349
Facility Expansion in Progress		509,088
Land- Inventory		21,836
Vehicle Loans		65,503
Habitat for Humanity International:		
AAR-2001		8,270
AAR-2002		13,486
AAR 2004-1		56,134
AAR 2004-2		26,153
AAR 2006		30,498
AAR 2007		191,331
SHOP 2001		23
SHOP 2002		6
SHOP 2003		4,627
SHOP 2004		3,417
SHOP 2007		8,960
Total	<u>\$</u>	<u>1,634,894</u>

CFCH is expanding its facilities again, utilizing a non-revolving loan, dated November 19, 2007, for up to \$755,000 from the same local bank. The note balance is currently \$509,088 and the terms of the note state CHFH cannot receive any advances after November 15, 2008. The note has a fixed interest rate of 7% and is secured by the building and land that house the current Home Store and the Home Store under construction. Interest only payments are due each month beginning December 15, 2007 and end on November 15, 2008. Thereafter, seventy-one monthly principal and interest payments of \$6,040.77 are due beginning December 15, 2008 with a balloon payment of the unpaid balance and any interest due on November 15, 2014.

In 2004, CHFH borrowed \$140,000 from another local bank and purchased 11 acres to develop for home construction in Siler City. The loan repayment is stated as a "lot release fee", payable to the bank. The fee of \$4,861 per lot is based on the original loan amount divided by 36 lots, divided by an 80% discount. On January 8, 2007, the note was modified. The interest rate is the bank's variable prime rate plus .75%, with accrued interest payable monthly. The remaining principal and interest is due on January 6, 2010.

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE F: Notes Payable (cont'd)

CHFH purchased a truck for the Home Store in June 2007 and purchased two trucks for \$15,900 each in May 2008. The trucks serve as collateral for the loans. Monthly payments are \$ 659.96 for the truck purchased in 2007 for 72 months and \$316.27 each for 60 months for the two trucks purchased in 2008.

Habitat for Humanity International:

In December 2001, CHFH borrowed \$101,200 from Habitat for Humanity International at 4.275% annual interest and pledged the income from nine mortgages, totaling \$192,341, as collateral. Quarterly payments of \$4,201.14 are due through December 2008.

In December 2002, CHFH borrowed \$56,800 from Habitat for Humanity International at 3.85% annual interest and pledged the income from six mortgages, totaling \$166,371, as collateral. Quarterly payments of \$2,323.87 are due through December 2009.

In December 2004, CHFH borrowed \$105,600 from Habitat for Humanity International at 3.63% annual interest and pledged the income from eight mortgages, totaling \$308,584, as collateral. Quarterly payments of \$4,287.86 are due through December 2011.

In February 2005, CHFH borrowed \$49,200 from Habitat for Humanity International at 3.63% annual interest and pledged the income from five mortgages, totaling \$212,894, as collateral. Quarterly payments of \$1,997.75 are due through December 2011.

In March 2006, CHFH borrowed \$43,100 from Habitat for Humanity International at 3.89% annual interest and pledged the income from three mortgages, totaling \$148,849, as collateral. Quarterly payments of \$1,765.79 are due through March 2013.

On November 9, 2007, CHFH borrowed \$204,100 from Habitat for Humanity International at 4.00% annual interest and pledged the buildings and land that house CHFH as security. Quarterly payments of \$8,393.50 are due through December 2014.

In July 2002, CHFH borrowed \$12,503.25, unsecured, from Habitat for Humanity International at 0.00% annual interest. Monthly payments of \$260 are due through May 2008, with a final payment now due of \$23.

In March 2003, CHFH borrowed \$11,093.75, unsecured, from Habitat for Humanity International at 0.00% annual interest. Monthly payments of \$231 are due through June 2008, with a final payment now due of \$6.

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE F: Notes Payable (cont'd)

Habitat for Humanity International:

In April 2004, CHFH borrowed \$36,967.50, unsecured, from Habitat for Humanity International at 0.00% annual interest. Monthly payments of \$770 are due through November 2008.

In September 2005, CHFH borrowed \$6,825.00, unsecured, from Habitat for Humanity International at 0.00% annual interest. Monthly payments of \$142 began July 1, 2006 and are due through July 1, 2010, with a final payment of \$151 due on July 1, 2010.

In September 2005, CHFH borrowed \$10,237.50, unsecured, from Habitat for Humanity International at 0.00% annual interest. Monthly payments of \$213 began January 2008, and are due through July 1, 2010.

Principal payments for the next five years are as follows:

Current portion:	
2009	\$ 214,683
Long-term portion:	
2010	738,474
2011	117,412
2012	110,747
2013	94,322
Thereafter	359,256
Total Notes Payable	\$1,634,894

NOTE G: Operating Lease

The Organization leases a copier for \$85 per month for a five-year term. The lease term began July 3, 2007.

NOTE H: Transactions with Habitat International

CHFH remits a portion of its unrestricted cash contributions to Habitat International on an annual basis. The funds are used to support construction of homes in economically depressed areas around the world. During the year, the Organization contributed \$20,500 to Habitat International. These amounts were charged to program expenses.

Chatham Habitat for Humanity
Notes to Financial Statements
June 30, 2008

NOTE I: Interest Costs

CHFHF incurred interest cost of \$19,996 on the facility expansion in progress, of which \$8,419 was capitalized and \$11,577 was expensed.

NOTE J: Restricted Support

North Carolina Housing Finance Agency (NCHFA)

The NCHFA oversees a "self-help housing program" and partners with CHFHF to construct energy efficient homes and provide \$20,000 housing loan subsidies per house to CHFHF, at 0% interest, for which the homeowner is responsible for repayment. CHFHF receives \$4,000 for each "energy star" home and \$1,000 per completed home for administrative expenses.

Chatham Oak Subdivision

CHFHF received donated property valued at \$150,000 from the County of Chatham as a part of the comprehensive plan to provide affordable housing in Chatham County. The plan, approved for \$750,000 in matching funds by the County in November 2006, will utilize funds donated by the Oak Foundation in partnership with CHFHF to provide affordable housing. In March of 2007, the Oak Foundation contributed \$400,000 and in November 2007, CHFHF received a \$60,000 draw from the County. Since January 2007, when the county-wide comprehensive plan began, fifteen homes have been completed and as of June 30, 2008, three are under construction. CHFHF will construct a portion of the homes in the mixed-income Chatham Oak subdivision. In September of 2008, the Oak Foundation contributed \$350,000 to CHFHF.

Briar Chapel Funds

The Chatham County Commissioners restated CHFHF as the County's agent for a \$1.1 million allocation, as a part of the affordable housing initiative. The "Briar Chapel" funds will be used to build affordable houses on sixty builder ready lots. Chatham County purchased and donated the Chatham Oak Subdivision property, as discussed above, with the first installment of the Briar Chapel funds.

Federal Home Loan Subsidy Program (FHLB)

In March 2008, the FHLB awarded CHFHF \$120,000 to subsidize affordable home construction in the Chatham Oak Subdivision. Each completed Habitat home yields \$8,000 for a maximum of eight homes, or \$64,000. Homes constructed by other builders will yield a total of \$56,000. Eligible Habitat homes are expected to be completed 2008 through 2009.

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Senior Management and Finance Committee
Chatham Habitat for Humanity
Pittsboro, North Carolina

In planning and performing my audit of the financial statements of Chatham Habitat for Humanity for the year ended June 30, 2008, I considered the Organization's internal control in order to determine my auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on internal control. Accordingly, I do not express an opinion on the effectiveness of the Organization's internal control.

However, during my audit, I became aware of several matters that are opportunities for strengthening internal controls and operating efficiency. I will review the status of these comments during my next audit engagement. I have already discussed some of these comments and suggestions with various Organization personnel, and I will be pleased to discuss these comments in further detail at your convenience, to perform any additional study of these matters, or to assist you in implementing the recommendations. My comments are summarized as follows:

Deposit Records

I reviewed deposit records for July 2007 through December 2007 and January, March, April, May and June of 2008 and noted records were not always complete. There were also instances of missing deposit allocation sheets for other deposits (non-donor/non-ACH deposits). Records should always reflect copies of checks deposited along with any related correspondence, a deposit allocation sheet, a donor detail record and a stamped bank deposit slip, as outlined in the Organization's accounting procedures.

Home Store Deposit Records

I reviewed deposit records for July 2007, December 2007, March, May and June of 2008 and compared with sales register tapes & reports and noted numerous instances where sales on register tapes did not match the reported sales amount and related bank deposit. The assumption was made that when the drawer was "short", it was due to an unreported voided sale. I recommend procedures be implemented to observe and supervise employees more closely, re-train if necessary, inspect sales register tapes more often, count cash drawer more frequently and any other procedures needed to determine the cause of the discrepancies to minimize or eliminate those occurrences.

Cash Disbursements

While testing cash disbursements for the entire year, I noted that supporting invoices were not always general ledger coded and authorized for payment. In order to minimize errors in classification of disbursements, canceled invoices should reflect the appropriate authorization and general ledger classification of the disbursement.

Asset Capitalization

While reviewing asset additions, I noted additions too small and immaterial to depreciate. Generally accepted accounting principles state that assets having an estimated useful life longer than one year should be capitalized and depreciated. Management should develop an asset capitalization policy that incorporates the size of the Organization as well as the nature of the asset item.

Accounting Manual

The Organization does not have a formal accounting manual documenting the procedures for fiscal operations. A written accounting manual is necessary to ensure that transactions are treated in a standardized manner and that proper internal controls exist in the accounting system. Should employees have a question as to the proper handling of a transaction in accordance with management's authorization, such information is not always available in writing. I recommend that operating guidelines for fiscal activities be prepared including a description of each fiscal procedure, such as invoice paying, maintenance of accounts and mortgages receivable, accounts payable subsidiary records and payroll procedures. In addition, an expense allocation methodology should also be incorporated into the accounting manual. Management has indicated they are preparing a manual that will address fiscal procedures.

Cynthia C. Boykin, CPA

Burlington, North Carolina
January 12, 2009

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January 12, 2009

Senior Management and Finance Committee
Chatham Habitat for Humanity
Pittsboro, North Carolina

I have audited the financial statements of Chatham Habitat for Humanity for the year ended June 30, 2008, and have issued my report thereon dated January 12, 2009. Professional standards require that I provide you with the following information related to my audit.

My Responsibility under U.S. Generally Accepted Auditing Standards

As stated in my engagement letter dated July 28, 2008, my responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. My audit of the financial statements does not relieve you or management of your responsibilities.

Planned Scope and Timing of the Audit

I performed the audit according to the planned scope and timing previously communicated to you in our meeting about planning matters on August 13, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Chatham Habitat for Humanity are described in Note A to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year ended June 30, 2008. I noted no transactions entered into by the Organization during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Difficulties Encountered in Performing the Audit

I encountered no significant difficulties in dealing with management in performing and completing my audit.

Corrected and Uncorrected Misstatements

Professional standards require me to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Material misstatements detected as a result of audit procedures were corrected by management and are noted separately.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to my satisfaction, that could be significant to the financial statements or the auditor's report. I am pleased to report that no such disagreements arose during the course of my audit.

Management Representations

I have requested certain representations from management that are included in the management representation letter dated January 12, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the Organization's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with me to determine that the consultant has all the relevant facts. To my knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

I generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management prior to retention as the Organization's auditor. However, these discussions occurred in the normal course of our professional relationship and my responses were not a condition to my retention.

This information is intended solely for the use of the Finance Committee, Board of Directors and Senior Management of Chatham Habitat for Humanity and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

Cynthia C. Boykin, CPA