

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

**FINANCIAL STATEMENTS
WITH
SUPPLEMENTARY INFORMATION**

**Years Ended September 30, 2004 and 2003
and
Independent Auditors' Report**

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Hughes, Snell & Co., P.A.

CERTIFIED PUBLIC ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

Board of Directors
Habitat for Humanity of Lee County, Inc.
North Fort Myers, Florida

We have audited the accompanying statements of financial position of Habitat for Humanity of Lee County, Inc. as of September 30, 2004 and 2003, 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 Habitat for Humanity of Lee County, Inc.'s management. Our responsibility is to express an opinion on the 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 in the first paragraph present fairly, in all material respects, the financial position of Habitat for Humanity of Lee County, Inc. as of September 30, 2004 and 2003, and the results of its operations and its cash flows for the years then ended in conformity with generally accepted accounting principles in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated January 6, 2005 on our consideration of Habitat for Humanity of Lee County, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards, and should be read in conjunction with this report in considering the results of our audits.

Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Expenditures of State Financial Assistance on page 16 is presented for purposes of additional analysis as required by the Florida Single Audit Act (Florida Statute 215.97) and the State of Florida Auditor General Rule 10.650, 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.

Hughes, Snell & Co., P.A.
Fort Myers, Florida
January 6, 2005



HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Statements of Financial Position
September 30, 2004 and 2003

	<u>ASSETS</u>	
	<u>2004</u>	<u>2003</u>
Cash		
Operating	\$ 1,637,530	\$ 292,655
Escrow	70,125	68,565
Charitable annuity split-interest agreements	459,023	480,447
Prepaid expenses and deposits	1,500	1,364
Building materials inventory	243,988	209,525
Mortgages receivable		
First mortgages	4,779,563	4,182,734
Second mortgages	4,259,764	3,895,961
Land held for home sites	1,081,120	1,468,006
Commercial property held	385,479	385,479
Construction in progress		
Home construction in progress	2,390,474	316,168
Homes completed pending closing	2,758,672	3,447,302
Property and equipment	<u>4,053,140</u>	<u>4,161,221</u>
Total Assets	<u>\$ 22,120,378</u>	<u>\$ 18,909,427</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued liabilities	\$ 44,383	\$ 50,971
Escrow accounts payable	73,105	73,966
Annuity obligations payable	308,064	316,790
Long-term debt	1,721,144	1,882,701
Second mortgage receivable reserves	<u>4,259,764</u>	<u>3,895,961</u>
	<u>6,406,460</u>	<u>6,220,389</u>
Net Assets		
Unrestricted	<u>15,713,918</u>	<u>12,689,038</u>
	<u>15,713,918</u>	<u>12,689,038</u>
Total Liabilities and Net Assets	<u>\$ 22,120,378</u>	<u>\$ 18,909,427</u>

**The accompanying notes must be read for a more informed use,
understanding and interpretation of these financial statements.**

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Statements of Activities and Changes in Net Assets
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and Support		
Contributions		
Cash contributions to Habitat of Lee County	\$ 2,794,961	\$ 2,436,389
Cash contributions to Habitat of Hendry County	95,153	22,057
Materials and services	222,961	409,855
Land donations		
Lee County	24,280	128,626
Hendry County	79,046	73,284
Gift annuity	3,971	265,000
Housing contract	506,457	910,556
Grants and subsidies	56,500	130,057
Application fees	6,237	8,960
Retail store sales	543,958	427,195
Special events	128,118	36,273
Amortization of mortgage discounts	285,970	285,156
Interest income	1,649	2,679
Rental income	108,233	74,170
Miscellaneous revenue	537,296	120,243
Gain on sale of mortgages receivable	473,252	173,452
	<u>5,868,042</u>	<u>5,503,952</u>
Transfers to homeowners for mortgage loans	2,843,344	1,012,945
Total Unrestricted Revenue and Support	<u>8,711,386</u>	<u>6,516,897</u>
Expenses		
Program services		
Construction	4,224,973	3,377,681
Retail stores	226,519	224,256
Hendry County	400,992	79,055
	<u>4,852,484</u>	<u>3,680,992</u>
Administrative and general	353,618	317,628
Fundraising	197,126	215,694
Total Expenses	<u>5,403,228</u>	<u>4,214,314</u>
Payments and change in value of charitable annuities split-interest agreements	<u>(283,278)</u>	<u>164,398</u>
CHANGES IN UNRESTRICTED NET ASSETS	<u>3,024,880</u>	<u>2,466,981</u>
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	12,689,038	12,289,599
Net effect of change in accounting method	<u>-</u>	<u>(2,067,542)</u>
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR, As restated	<u>12,689,038</u>	<u>10,222,057</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ 15,713,918</u>	<u>\$ 12,689,038</u>

**The accompanying notes must be read for a more informed use,
understanding and interpretation of these financial statements.**

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Statements of Functional Expenses
Year Ended September 30, 2004
(with 2003 Comparative Totals)

	2004				2003	
	Program Services		Administrative		Fundraising	Total
	Construction	Hendry Cty	Retail Stores	and General		
Construction costs	\$ 3,334,614	\$ 311,371	\$ -	\$ -	\$ -	\$ 3,645,985
Direct program expenses						
Volunteer department	57,486	-	-	-	-	57,486
Family services department	110,721	-	-	-	-	110,721
Other direct program costs	438,561	480	-	-	-	439,041
Tithe to HFHI	161,479	348	-	-	-	161,827
Miscellaneous	-	-	-	-	-	-
Program indirect expenses						
Development and communications	-	5,263	-	-	197,126	202,389
Cost of furniture sales	-	-	226,519	-	-	226,519
Administrative indirect expenses						
Office and other salaries	-	68,790	-	162,764	-	231,554
Insurance	-	-	-	23,442	-	23,442
Mortgage interest	-	-	-	369	-	369
Legal and accounting	-	-	-	8,180	-	8,180
Office operations	-	3,698	-	70,490	-	74,188
Maintenance	-	2,696	-	4,087	-	6,783
Utilities	-	8,346	-	27,189	-	35,535
Miscellaneous	-	-	-	57,097	-	57,097
Total Functional Expenses Before Depreciation	4,102,861	400,992	226,519	353,618	197,126	5,281,116
Depreciation	122,112	-	-	-	-	122,112
Total Functional Expenses	\$ 4,224,973	\$ 400,992	\$ 226,519	\$ 353,618	\$ 197,126	\$ 5,403,228
						\$ 4,214,314

The accompanying notes must be read for a more informed use, understanding and interpretation of these financial statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Statements of Functional Expenses
Year Ended September 30, 2003

	2003					
	Program Services			Administrative		
	Construction	Hendry Cty	Retail Stores	and General	Fundraising	Total
Construction costs	\$ 2,691,458	\$ 16,235	\$ -	\$ -	\$ -	\$ 2,707,693
Direct program expenses						
Volunteer department	150,476	-	-	-	-	150,476
Family services department	71,487	-	-	-	-	71,487
Other direct program costs	244,037	720	-	-	-	244,757
Tithe to HFHI	108,961	-	-	-	-	108,961
Miscellaneous	3,697	-	-	-	-	3,697
Program indirect expenses						
Development and communications	-	6,621	-	-	215,694	222,315
Cost of furniture sales	-	-	224,256	-	-	224,256
Administrative indirect expenses						
Office and other salaries	-	26,983	-	136,248	-	163,231
Insurance	-	1,852	-	32,600	-	34,452
Mortgage interest	-	-	-	50,457	-	50,457
Legal and accounting	-	150	-	6,011	-	6,161
Office operations	-	635	-	25,375	-	26,010
Maintenance	-	22,404	-	-	-	22,404
Utilities	-	3,222	-	24,596	-	27,818
Miscellaneous	-	233	-	42,341	-	42,574
Total Functional Expenses Before Depreciation	3,270,116	79,055	224,256	317,628	215,694	4,106,749
Depreciation	107,565	-	-	-	-	107,565
Total Functional Expenses	\$ 3,377,681	\$ 79,055	\$ 224,256	\$ 317,628	\$ 215,694	\$ 4,214,314

The accompanying notes must be read for a more informed use, understanding and interpretation of these financial statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Statements of Cash Flows
Years Ended September 30, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 3,024,880	\$ 2,466,981
Adjustments to reconcile changes in unrestricted net assets to net cash used in operating activities		
Transfers to homeowners	(2,834,585)	(883,652)
Depreciation	122,112	107,565
Gain on sale of mortgages receivable	(473,252)	(173,452)
Foreclosures	47,475	121,172
(Increase) decrease in assets:		
Charitable annuity split-interest agreements	21,424	(383,443)
Prepaid expenses and deposits	(136)	664
Building materials inventory	(34,463)	(138,112)
Land held for home sites	386,886	(229,798)
Construction in progress	(2,074,306)	461,348
Homes completed pending closing	688,630	(2,086,550)
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	(9,010)	(39,794)
Annuity obligations payable	(8,726)	190,011
Net Cash Used in Operating Activities	<u>(1,143,071)</u>	<u>(587,060)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(14,031)	(1,007,112)
Proceeds from sales of mortgages receivable	2,509,506	721,253
Mortgage payments received	154,028	73,463
Net Cash Provided by (Used in) Investing Activities	<u>2,649,503</u>	<u>(212,396)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from notes and mortgages payable	-	998,370
Principal payments on notes and mortgages payable	(161,557)	(335,523)
Net Cash Provided by (Used in) Financing Activities	<u>(161,557)</u>	<u>662,847</u>
Increase (Decrease) in Cash and Cash Equivalents	1,344,875	(136,609)
Cash and Cash Equivalents at Beginning of Year	<u>292,655</u>	<u>429,264</u>
Cash and Cash Equivalents at End of Year	<u>\$ 1,637,530</u>	<u>\$ 292,655</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 47,731</u>	<u>\$ 50,457</u>

The accompanying notes must be read for a more informed use, understanding and interpretation of these financial statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Operations

Habitat for Humanity of Lee County, Inc. (“Habitat”), is a non-profit organization funded by public contributions. The organization was incorporated October 8, 1982 and is dedicated to providing housing in Lee County and Hendry County, Florida, for those families who cannot otherwise afford a decent place to live.

Habitat is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), a nondenominational Christian not-for-profit organization whose purpose is to create affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. 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 has chosen to contribute a tithe on mortgage payments received to Habitat International, as part of the affiliation.

The financial statements have been prepared on the accrual basis of accounting and follow generally accepted accounting principles for not-for-profit organizations as published by the American Institute of Certified Public Accountants.

Basis of Presentation

The financial statement presentation follows the recommendations of the Financial Accounting Standards Board in its Statement of Financial Accounting Standards (SFAS) No. 117, “*Financial Statements of Not-for-Profit Organization*”. Under SFAS No. 117, the Organization is required to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

The Organization has adopted Statement of Financial Accounting Standards (SFAS) No. 116, “*Accounting for Contributions Received and Contributions Made*”. In accordance with SFAS No. 116, contributions received are recorded as unrestricted, temporarily restricted, or permanently restricted support, depending on the existence and/or nature of any donor restrictions.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Organization considers all highly liquid debt instruments with a maturity of three months or less to be cash equivalents.

Promises to Give

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Building Materials Inventory

Building materials are stated at the lower of cost (utilizing the first-in, first-out method) or market.

Property and Equipment

Property and equipment is recorded at cost or estimated fair market value on the date received. Depreciation is computed using straight-line method over the estimated useful lives of the assets, ranging from five to thirty-nine years.

Donated Property and Equipment

Donations of property and equipment (in-kind contributions) are recorded as revenue at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support.

Revenue Recognition

It is Habitat's policy to sell affordable housing with interest free mortgages. Therefore, mortgages receivable do not have a stated interest rate. In accordance with generally accepted accounting principals, the mortgages receivable have been discounted based upon the prevailing market rates at the inception of the mortgage. Transfers to owners are recorded at the discounted amount.

Donated Services

Habitat recognizes donated services that create or enhance non-financial assets. Habitat also recognizes donated services for specialized skills that would typically need to be purchased if not acquired by donation, provided that individuals possessing those skills perform the services. No amounts have been reflected in the financial statements for other donated services. However, a large number of volunteers have donated significant amounts of their time to the organization's program services.

Program Services

Program services include construction, family support and educational ministries. The cost of home building is charged to program services as incurred.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE A – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Functional Allocation of Expenses

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

Income Taxes

Habitat qualifies as a not-for-profit corporation pursuant to the provisions of Section 501(c)(3) of the Internal Revenue Code. Under this section, the corporation is exempt from income taxes on its non-business related income. Business income, such as rent, received by the Organization that is unrelated to program activities, net of related expenses, is subject to Federal and State income taxes.

Use of 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 and disclosures. Actual results could differ from those estimates.

Reclassifications

Certain accounts in the September 30, 2003 financial statements have been reclassified for comparative purposes to conform to the presentation in the 2004 financial statements.

NOTE B – ESCROW CASH

Funds received from homeowners for real estate taxes and insurance and distributions thereof are restricted to payment for taxes and insurance on homeowner's properties. In addition, funds received from home buyers prior to closing are held in escrow and restricted to down payment and closing costs on new home sales. At September 30, 2004 and 2003, Habitat held \$70,125 and \$68,565, respectively in escrow funds. These escrow funds are recorded as cash, with a corresponding liability in the financial statements as escrow accounts payable.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE C – MORTGAGES RECEIVABLE

There were first mortgages receivable on 143 homes and 155 homes at September 30, 2004 and 2003, respectively.

The following is a summary of the mortgage transactions:

	2004	2003
Balance as of beginning of year, previously reported	\$ 4,182,734	\$ 6,103,659
Discount for non-interest bearing loans	-	(2,067,542)
Balance as of beginning of year, as restated	4,182,734	4,036,117
New mortgages	2,601,193	886,456
Modifications and adjustments	-	2,596
	6,783,927	4,925,169
Payments	(220,635)	(73,463)
Foreclosures	(47,475)	(121,172)
Sales of mortgages	(2,036,254)	(547,800)
Balance as of end of year	\$ 4,779,563	\$ 4,182,734

During the year ended September 30, 2004, Habitat sold mortgages receivable with a book value of \$2,036,254 for \$2,509,506. During the year ended September 30, 2003, Habitat sold mortgages receivable with a book value of \$547,800 for \$721,253.

In addition, second mortgages are held on each home built. The terms of the second mortgages range from 10 to 20 years, and must be satisfied if the home is sold within the term of the mortgage. The second mortgages are offset by second mortgage reserves reported on the balance sheet under liabilities because payment on these mortgages is waived on a pro-rata basis over the term of the mortgage.

NOTE D – HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2004, 41 homes were transferred to homeowners and 87 were under construction or completed at year-end. During the year ended September 30, 2003, 38 homes were transferred to homeowners and 58 were under construction or completed at year-end.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE E – PROPERTY AND EQUIPMENT

At September 30, 2004 and 2003, the carrying value of property and equipment and the related accumulated depreciation are as follows:

	2004	2003
Land	\$ 462,714	\$ 1,362,714
Buildings	3,668,047	2,825,089
Office equipment	27,775	27,775
Computers	68,222	65,697
Forklifts	63,234	63,234
Vehicles	208,605	142,889
	<u>4,498,597</u>	<u>4,487,398</u>
Less accumulated depreciation	445,457	326,177
	<u>\$ 4,053,140</u>	<u>\$ 4,161,221</u>

NOTE F – LEASE OBLIGATIONS

Operating Leases

Habitat leases certain vehicles under non-cancelable operating leases with varying terms through March 2008. Rent expense under these leases was \$62,887 for the year ended September 30, 2004.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2004 are:

<u>Year Ending September 30</u>	
2005	\$ 62,869
2006	62,869
2007	45,058
2008	16,032
Total Minimum Future Rental Payments	<u>\$ 186,828</u>

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE F – LEASE OBLIGATIONS (continued)

Capital Leases

Habitat leases certain vehicles under capital leases. The economic substance of these leases is that Habitat is financing the acquisition of the vehicles through the leases and accordingly, the vehicles are recorded as assets and the leases are recorded as liabilities.

Depreciation of the assets under the capital lease is included in depreciation expense.

The following is an analysis of the leased assets included in property and equipment:

Vehicles Under Capital Leases	\$	39,786
Less: Accumulated Depreciation		<u>2,463</u>
	\$	<u><u>37,323</u></u>

Future minimum lease payments under the capital leases as of September 30, 2004, for each of the remaining years and in the aggregate are as follows:

Year Ending September 30		
2005	\$	8,883
2006		9,204
2007		9,204
2008		7,237
2009		<u>4,905</u>
		39,433
	Less: Amount Representing Interest	<u>1,871</u>
	Present Value of Minimum Lease Payments	<u><u>\$ 37,562</u></u>

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE G – LONG-TERM DEBT

	<u>2004</u>	<u>2003</u>
Mortgage payable to Trust, interest monthly at 8.0%, secured by real estate, due February 2005	\$ 136,892	\$ 138,210
Mortgage payable to financial institution, monthly payments of \$1,716 including principal and interest at 5.5%, secured by real estate, maturing April, 2007	186,690	196,121
Mortgage payable to financial institution secured by real estate, non-interest bearing, annually payments of \$125,000 and, maturing December, 2009	625,000	750,000
Mortgage payable to financial institution secured by real estate, interest monthly at Wall Street prime minus .05% (not less than 4%), maturing September 2009	335,000	198,370
Mortgage payable to financial institution secured by real estate, interest only payable at prime minus 1.25% (2.75% at September 30, 2004), maturing February 2006	400,000	600,000
Lease payable to financial institution, interest monthly at 5.99%, secured by vehicle, maturing March, 2008	11,845	-
Lease payable to financial institution, interest monthly at .9%, secured by vehicle, maturing August, 2009	<u>25,717</u>	<u>-</u>
	<u>\$ 1,721,144</u>	<u>\$ 1,882,701</u>

Principal maturities of long-term debt at September 30, 2004 are as follows:

<u>Year Ending September 30</u>	
2005	\$ 282,368
2006	546,208
2007	300,258
2008	133,677
2009	131,052
Thereafter	327,581
	<u>\$ 1,721,144</u>

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE H – MORTGAGE LOAN SERVICE AGREEMENT

Habitat services the mortgages it holds, handling the processing of mortgage payments and escrow accounts for the mortgages. In addition, Habitat has contracted with outside parties to service mortgages totaling \$8,840,434 as of September 30, 2004 and \$6,288,712 as of September 30, 2003. These mortgages are not owned by Habitat and, therefore, not reflected in the financial statements.

NOTE I – CHARITABLE GIFT ANNUITY SPLIT-INTEREST AGREEMENTS

Habitat has received donations in the form of charitable gift annuities. The charitable gift annuity is a combination of a gift to Habitat and an annuity for the donor. The donor transfers property to Habitat and Habitat promises to pay a given amount at the end of each selected payment period to the donor for life or the designated term of the annuity. At the end of the annuity period the remainder is transferred to Habitat with no probate cost.

The assets received are recorded at their fair value and the related liability is recorded as an annuity obligation. Annuity obligations are recorded at the present value of the expected future payments, based on the expected mortality and a discount rate of 4%.

NOTE J – TITHE TO HABITAT INTERNATIONAL

Habitat annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$161,827 and \$108,961 for the years ended September 30, 2004 and 2003, respectively. This amount is included in program services expense in the statement of functional expenses.

NOTE K – LEE COUNTY CONTRACT

During the year ending September 30, 2004, Habitat entered into various contracts with Lee County totaling \$506,457 in contract funds to construct 29 single-family homes. During the year ended September 30, 2003, Habitat entered into contracts with Lee County totaling \$910,556 in contract funds to construct 44 single-family homes.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2004 and 2003

NOTE L – CONCENTRATION OF CREDIT

The Company maintains cash balances at several financial institutions located in Southwest Florida. Accounts in each institution are insured by the Federal Deposit Insurance Corporation up to \$100,000. At September 30, 2004 and 2003, Habitat's uninsured cash balances total \$1,265,354 and \$74,824, respectively.

NOTE M – CHANGE IN ACCOUNTING METHOD

Accounting pronouncement APB 21, "Interest on Receivables and Payables", requires that non-interest bearing mortgages be discounted based upon the prevailing market rates at the inception of the mortgage. This discount should be then amortized over the lives of the mortgages. Prior to the fiscal year ended September 30, 2003, the Board of Directors of Habitat had chosen not to discount the mortgages and to continue showing them at their remaining book value. Effective October 1, 2002 the accounting method was changed to discount the mortgages in accordance with generally accepted accounting principles. The discount reduced the recorded amount of the mortgages receivable by \$2,067,542 as of October 1, 2002.

SUPPLEMENTARY INFORMATION

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Schedule of Expenditures for State Financial Assistance
September 30, 2004

<u>Grantor/Contract</u>	<u>Lee County Contract Number</u>	<u>Total State Expenditures</u>
<u>Florida</u>		
State Housing Initiatives Partnership Program	C2378	\$ 270,000
	C2610	23,000
	CFDA #14.218	<u>213,457</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE		\$ <u><u>506,457</u></u>

This schedule has been prepared on the accrual basis of accounting, which is consistent with the Organization's audited financial statements.

There were no transfers of State Financial Assistance to sub-recipients during the year.

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

Board of Directors
Habitat for Humanity of Lee County, Inc.
Fort Myers, Florida

We have audited the financial statements of Habitat for Humanity of Lee County, Inc., as of and for the year ended September 30, 2004 and have issued our report thereon dated January 6, 2005. 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.

Compliance

As part of obtaining reasonable assurance about whether Habitat for Humanity of Lee County, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under *Government Auditing Standards*.

Internal control Over Financial Reporting

In planning and performing our audit, we considered Habitat for Humanity of Lee County, Inc.'s internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended for the information of the audit committee, management, state and federal awarding agencies, pass-through entities, and the Auditor General of the State of Florida. However, this report is a matter of public record and its distribution is not limited.



Hughes, Snell & Co., P.A.
Fort Myers, Florida
January 6, 2005

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE AND INTERNAL
CONTROL OVER COMPLIANCE APPLICABLE TO EACH MAJOR
STATE PROGRAM AND PROJECT**

Board of Directors
Habitat for Humanity of Lee County, Inc.
Fort Myers, Florida

Compliance

We have audited the compliance of Habitat for Humanity of Lee County, Inc., (a nonprofit Florida corporation), with the types of compliance with the Florida Single Audit Act requirements that are applicable to each of its major state programs and projects for the year ended September 30, 2004. Habitat for Humanity of Lee County, Inc.'s, major state programs and projects are identified in the summary of auditors' results section of the accompanying Schedule of Expenditures of State Financial Assistance. Compliance with the requirements of laws, regulations, contracts, and grants applicable to each of its state programs and projects is the responsibility of Habitat for Humanity of Lee County, Inc.'s management. Our responsibility is to express an opinion on Habitat for Humanity of Lee County, Inc.'s, compliance based on our audit.

We conducted our audit 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 Chapter 10.650, Rules of the Auditor General. Those standards, and Chapter 10.650, Rules of the Auditor General, 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 state project occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity of Lee County, 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 Habitat for Humanity of Lee County, Inc.'s, compliance with these requirements.

In our opinion, Habitat for Humanity of Lee County, Inc., complied, in all material respects, with the requirements referred to above that are applicable to each of its major state program and projects for the year ended September 30, 2004.

Internal Control Over Compliance

The management of Habitat for Humanity of Lee County, Inc., is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to state projects. In planning and performing our audit, we considered Habitat for Humanity of Lee County, Inc.'s, internal control over compliance with the requirements that could have a direct and material effect on a state project 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 Chapter 10.650, Rules of the Auditor General.

Habitat for Humanity of Lee County, Inc.
January 6, 2005
Page Two

Our consideration of the internal control structure over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a state project being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material.

This report is intended for the information of the audit committee, management, state and federal awarding agencies, pass-through entities, and the Auditor General of the State of Florida. However, this report is a matter of public record and its distribution is not limited.

A handwritten signature in cursive script that reads "Hughes, Snell & Co., P.A.".

Hughes, Snell & Co., P.A.
Fort Myers, Florida
January 6, 2005

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS -
 STATE PROGRAMS AND PROJECTS

Year Ended September 30, 2004

A. SUMMARY OF AUDITORS' RESULTS

1. The auditors' report expresses an unqualified opinion on the financial statements of Habitat for Humanity of Lee County, Inc.
2. No reportable conditions relating to the audit of the major state programs and projects are reported in the Independent Auditors' Report on Compliance and Internal Control Over Compliance Applicable to each Major State Program and Project.
3. The auditor's report on compliance for the major state programs and projects for Habitat for Humanity of Lee County, Inc., expresses an unqualified opinion.
4. Audit findings relative to the major state programs and projects for Habitat for Humanity of Lee County, Inc. are reported in Part B of this Schedule.
5. The programs/projects tested a major programs/projects included the following:

<u>State Project</u>		
State Housing Initiatives Partnership Program		
C2379	\$	270,000
C2610		23,000
CFDA #14.218		213,457
	\$	<u>506,457</u>

6. Habitat for Humanity of Lee County, Inc. was determined not to be a low risk audit pursuant to the Chapter 10.650 Rules of the Auditor General.

B. FINDINGS – FINANCIAL STATEMENTS

Finding

Grant Program Policies and Procedures

There were no findings with regard to reportable conditions, material weaknesses, or instances of noncompliance related to the financial statements.

**C. FINDINGS AND QUESTIONED COSTS –
 MAJOR STATE PROJECTS**

There were no audit findings related to major state programs and projects required to be reported by Chapter 10.650 Rules of the Auditor General.

Status of State Prior Year Findings – There were no prior year findings.

INDEPENDENT AUDITORS' REPORT TO MANAGEMENT

Board of Directors
Habitat for Humanity of Lee County, Inc.
Fort Myers, Florida

In planning and performing our audit of the financial statements of Habitat for Humanity of Lee County, Inc., (Habitat) (a not-for-profit-Florida Corporation), for the year ended September 30, 2004, we considered Habitats' internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements. In connection with our audit, we are submitting the following comments and recommendations in accordance with Chapter 10.650 "Rules of the Auditor General-State Single Audit, Nonprofit and For-Profit Organizations" (Revised September 30, 2004) Rule 10.656(3)(e) and Section 215.97(8)(f), of the Florida Statutes. Although our audit was not designed to provide assurance on the internal controls, we noted certain matters involving the internal controls and its operation and are submitting for your consideration, related recommendations designed to help Habitat for Humanity make improvements and achieve operational efficiencies. Our comments reflect our desire to be of continuing assistance to Habitat for Humanity of Lee County, Inc.

PRIOR YEAR COMMENTS:

FINDING:

We recommended that Habitat develop a standard format for documentation supporting reimbursement requests to Lee County for State Housing Initiative Partnership program funds. This would include copies of invoices supporting grant expenditures related to specific homes under construction.

RECOMMENDATION:

Habitat compiled with the recommendation and the finding no longer applies.

CURRENT YEAR COMMENTS:

FINDING:

Habitat leases its employees from an employee leasing company and, therefore, does not pay payroll taxes. Subsequent to the September 30, 2004 year-end, but prior to the issuance of the audited financial statements, Habitat gave bonuses to Habitat staff without including these bonuses as wages to its leased employees. We recommend that this type of compensation policy be discontinued and that any bonuses or other compensation be included as taxable income.

CURRENT YEAR COMMENTS (continued):

RECOMMENDATION:

During the audit, we noted various correcting and reclassifying journal entries, primarily related to bookkeeping errors, which were corrected and resolved. We recommend that Habitat continue to develop accounting policies and procedures to improve expenditure reporting that will minimize the need for corrections.

This report is intended solely for the information and use of finance committee, management, Federal and State awarding agencies, pass-through entities, the Auditor General for the State of Florida and other Federal and State audit agencies. This report is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in cursive script that reads "Hughes, Snell & Co., P.A.".

Hughes, Snell & Co., P.A.
Fort Myers, Florida
January 6, 2005



Habitat for Humanity
Lee County, FL.

Housing for God's people in need.
"A Hand-Up, Not A Hand-Out"

February 11, 2005

Sharon Thompson
Hughes Snell & Co.
1470 Royal Palm Square Blvd.
Fort Myers, FL 33919

Re: Independent Auditors' Report to Management
Fiscal Year 2004

Dear Ms. Thompson,

The following is our response to your report in connection with the current year comments.

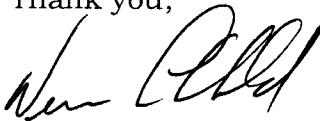
FINDING:

In connection to year end staff bonuses, Habitat has issued 1099-misc to staff members in compliance with IRS guidelines. Habitat will no longer disburse year end bonuses in this manner. We will issue any future bonuses as a 401k match to staff members.

RECOMMENDATION:

There were various correcting and reclassifying journal entries. The significant change in the chart of accounts and reassignment of house numbers were directly related to these correcting entries. Procedures have been implemented to reduce the number of future corrections.

Thank you,



Vern Archibald
President/CEO