

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

**FINANCIAL STATEMENTS
WITH
SUPPLEMENTARY INFORMATION**

**Years Ended September 30, 2005 and 2004
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, 2005 and 2004, 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, 2005 and 2004, 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 9, 2006 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 15 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.
Hughes, Snell & Co., P.A.
Fort Myers, Florida
January 9, 2006

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Statements of Financial Position
September 30, 2005 and 2004

	<u>ASSETS</u>	
	<u>2005</u>	<u>2004</u>
Cash		
Operating	\$ 2,693,143	\$ 1,637,530
Escrow	72,900	70,125
Notes receivable	650,000	-
Charitable annuity split-interest agreements	420,418	459,023
Prepaid expenses and deposits	1,177	1,500
Building materials inventory	99,393	243,988
Mortgages receivable		
First mortgages	5,574,894	4,779,563
Second mortgages	4,538,326	4,259,764
Land held for home sites	1,090,698	1,081,120
Commercial property held	466,535	385,479
Construction in progress		
Home construction in progress	1,825,898	2,390,474
Homes completed pending closing	5,316,047	2,758,672
Property and equipment	<u>3,626,829</u>	<u>4,053,140</u>
	Total Assets \$ <u>26,376,258</u>	\$ <u>22,120,378</u>

LIABILITIES AND NET ASSETS

Liabilities		
Accounts payable and accrued liabilities	\$ 48,413	\$ 44,383
Escrow accounts payable	72,900	73,105
Annuity obligations payable	231,988	308,064
Long-term debt	1,148,441	1,644,891
Second mortgage receivable reserves	<u>4,538,326</u>	<u>4,259,764</u>
	<u>6,040,068</u>	<u>6,330,207</u>
Net Assets		
Unrestricted	<u>20,336,190</u>	<u>15,790,171</u>
	<u>20,336,190</u>	<u>15,790,171</u>
	Total Liabilities and Net Assets \$ <u>26,376,258</u>	\$ <u>22,120,378</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, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CHANGES IN UNRESTRICTED NET ASSETS		
Revenue and Support		
Contributions		
Cash contributions	\$ 3,767,528	\$ 2,890,114
Materials and services	153,974	222,961
Land donations	17,470	103,326
Gift annuity	-	3,971
Housing contract	847,574	506,457
Grants and subsidies	262,500	56,500
Application fees	7,620	6,237
Retail store sales	562,681	543,958
Special events	191,648	128,118
Amortization of mortgage discounts	279,204	285,970
Interest income	32,530	1,649
Rental income	69,961	108,233
Miscellaneous revenue	1,041,559	537,296
Gain on sale of mortgages receivable	63,425	473,252
	<u>7,297,674</u>	<u>5,868,042</u>
Transfers to homeowners for mortgage loans	1,751,971	2,948,610
Total Unrestricted Revenue and Support	<u>9,049,645</u>	<u>8,816,652</u>
Expenses		
Program services		
Construction	3,664,027	4,537,172
Retail stores	241,156	226,519
	<u>3,905,183</u>	<u>4,763,691</u>
Administrative and general	480,829	466,161
Fundraising	143,927	202,389
Total Expenses	<u>4,529,939</u>	<u>5,432,241</u>
Payments and change in value of charitable annuities split-interest agreements	26,313	(283,278)
CHANGES IN UNRESTRICTED NET ASSETS	4,546,019	3,101,133
UNRESTRICTED NET ASSETS - BEGINNING OF YEAR	<u>15,790,171</u>	<u>12,689,038</u>
UNRESTRICTED NET ASSETS - END OF YEAR	<u>\$ 20,336,190</u>	<u>\$ 15,790,171</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.

Statement of Functional Expenses
 Year Ended September 30, 2005
 (with 2004 Comparative Totals)

	2005			2004		
	Program Services		Administrative and General	Fundraising		Total
	Construction	Retail Stores			Total	
Construction costs	\$ 2,630,517	\$ -	\$ -	\$ -	\$ 2,630,517	\$ 3,645,985
Direct program expenses						
Volunteer department	142,125	-	-	-	142,125	57,486
Family services department	60,697	-	-	-	60,697	110,721
Other direct program costs	557,958	-	-	-	557,958	439,041
Tithe to HIFHI	130,962	-	-	-	130,962	161,827
Program indirect expenses						
Development and communications	-	-	-	143,927	143,927	202,389
Cost of furniture sales	-	241,156	-	-	241,156	226,519
Administrative indirect expenses						
Office and other salaries	-	-	175,779	-	175,779	231,554
Insurance	-	-	25,804	-	25,804	23,442
Mortgage interest	-	-	24,694	-	24,694	29,382
Legal and accounting	-	-	7,925	-	7,925	8,180
Office operations	-	-	77,317	-	77,317	74,188
Maintenance	-	-	5,303	-	5,303	6,783
Utilities	-	-	40,660	-	40,660	35,535
Miscellaneous	-	-	123,347	-	123,347	57,097
Total Functional Expenses Before Depreciation	3,522,259	241,156	480,829	143,927	4,388,171	5,310,129
Depreciation	141,768	-	-	-	141,768	122,112
Total Functional Expenses	\$ 3,664,027	\$ 241,156	\$ 480,829	\$ 143,927	\$ 4,529,939	\$ 5,432,241

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

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Statement of Functional Expenses
Year Ended September 30, 2004

	2004			
	Program Services		Administrative and General	
	Construction	Retail Stores	Fundraising	Total
Construction costs	\$ 3,645,985	\$ -	\$ -	\$ 3,645,985
Direct program expenses				
Volunteer department	57,486	-	-	57,486
Family services department	110,721	-	-	110,721
Other direct program costs	439,041	-	-	439,041
Tithe to HFHI	161,827	-	-	161,827
Program indirect expenses				
Development and communications	-	-	202,389	202,389
Cost of furniture sales	-	226,519	-	226,519
Administrative indirect expenses				
Office and other salaries	-	-	231,554	231,554
Insurance	-	-	23,442	23,442
Mortgage interest	-	-	29,382	29,382
Legal and accounting	-	-	8,180	8,180
Office operations	-	-	74,188	74,188
Maintenance	-	-	6,783	6,783
Utilities	-	-	35,535	35,535
Miscellaneous	-	-	57,097	57,097
Total Functional Expenses Before Depreciation	4,415,060	226,519	466,161	5,310,129
Depreciation	122,112	-	-	122,112
Total Functional Expenses	\$ 4,537,172	\$ 226,519	\$ 466,161	\$ 5,432,241

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

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Statements of Cash Flows
Years Ended September 30, 2005 and 2004

	<u>2005</u>	<u>2004</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in unrestricted net assets	\$ 4,546,019	\$ 3,101,133
Adjustments to reconcile changes in unrestricted net assets to net cash used in operating activities		
Transfers to homeowners	(1,421,594)	(2,834,585)
Depreciation	141,768	122,112
Gain on sale of mortgages receivable	(63,375)	(473,252)
Gain on disposal of property and equipment	(764,053)	(466,495)
Foreclosures	206,821	47,475
(Increase) decrease in assets:		
Charitable annuity split-interest agreements	38,605	21,424
Prepaid expenses and deposits	323	(136)
Building materials inventory	144,595	(34,463)
Land held for home sites	(46,411)	274,901
Commercial property held	(81,056)	-
Construction in progress	564,576	(2,074,306)
Homes completed pending closing	(2,557,375)	688,630
Increase (decrease) in liabilities:		
Accounts payable and accrued liabilities	4,030	(6,589)
Escrow accounts payable	(2,980)	(2,421)
Annuity obligations payable	(76,076)	(8,726)
Net Cash Provided by (Used in) Operating Activities	<u>633,817</u>	<u>(1,645,298)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of property and equipment	(142,863)	(14,031)
Proceeds from sale of property	1,228,293	578,480
Notes receivable	(650,000)	-
Proceeds from sales of mortgages receivable	202,000	2,509,506
Mortgage payments received	280,816	154,028
Net Cash Provided by Investing Activities	<u>918,246</u>	<u>3,227,983</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal payments on notes and mortgages payable	(496,450)	(237,810)
Net Cash Used in Financing Activities	<u>(496,450)</u>	<u>(237,810)</u>
Increase in Cash and Cash Equivalents	1,055,613	1,344,875
Cash and Cash Equivalents at Beginning of Year	<u>1,637,530</u>	<u>292,655</u>
Cash and Cash Equivalents at End of Year	<u>\$ 2,693,143</u>	<u>\$ 1,637,530</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	\$ <u>57,759</u>	\$ <u>47,731</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, 2005 and 2004

NOTE A – ORGANIZATION AND 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, 2005 and 2004

**NOTE A – ORGANIZATION AND 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 principles, 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, 2005 and 2004

**NOTE A – ORGANIZATION AND 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 items in the 2004 financial statements have been reclassified to conform to the 2005 presentation.

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, 2005 and 2004, Habitat held \$72,900 and \$73,105, respectively in escrow funds. These escrow funds are recorded as cash, with a corresponding liability in the financial statements as escrow accounts payable.

NOTE C – NOTE RECEIVABLE

Habitat holds four promissory notes totaling \$650,000 with various companies, who are participating in the governmental tax credit program. The notes mature 6 months from the date of the note and are non-interest bearing. The notes are payable in one lump sum payment due upon receipt of tax credit check or maturity of the note, which ever is sooner.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2005 and 2004

NOTE D – MORTGAGES RECEIVABLE

There were first mortgages receivable on 148 homes and 143 homes at September 30, 2005 and 2004, respectively.

The following is a summary of the mortgage transactions:

	<u>2005</u>	<u>2004</u>
Balance as of beginning of year, previously reported	\$ 4,779,563	\$ 4,182,734
New mortgages	<u>1,592,230</u>	<u>2,901,193</u>
	6,371,793	7,083,927
Payments	(280,816)	(220,635)
Foreclosures	(206,822)	(47,475)
Sales of mortgages	(138,625)	(2,036,254)
Modifications and adjustments	<u>(170,636)</u>	-
Balance as of end of year	<u>\$ 5,574,894</u>	<u>\$ 4,779,563</u>

During the year ended September 30, 2005, Habitat sold mortgages receivable with a book value of \$138,575 for \$202,000. During the year ended September 30, 2004, Habitat sold mortgages receivable with a book value of \$2,036,254 for \$2,509,506.

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 E – HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2005, 27 homes were transferred to homeowners and 90 were under construction or completed at year-end. During the year ended September 30, 2004, 41 homes were transferred to homeowners and 87 were under construction or completed at year-end.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2005 and 2004

NOTE F – PROPERTY AND EQUIPMENT

At September 30, 2005 and 2004, the carrying value of property and equipment and the related accumulated depreciation are as follows:

	<u>2005</u>	<u>2004</u>
Land	\$ 462,714	\$ 462,714
Buildings	3,240,637	3,668,047
Office equipment	27,776	27,775
Computers	77,212	68,222
Forklifts	101,192	63,234
Vehicles	<u>304,523</u>	<u>208,605</u>
	4,214,054	4,498,597
Less accumulated depreciation	<u>587,225</u>	<u>445,457</u>
	<u>\$ 3,626,829</u>	<u>\$ 4,053,140</u>

NOTE G – 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 \$62,869 and \$62,887 for the years ended September 30, 2005 and 2004, respectively.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2005 are:

<u>Year Ending</u> <u>September 30</u>		
2006	\$	62,868
2007		42,871
2008		<u>20,685</u>
Total Minimum Future Rental Payments	\$	<u><u>126,424</u></u>

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2005 and 2004

NOTE H – LONG-TERM DEBT

	<u>2005</u>	<u>2004</u>
Mortgage payable to Trust, interest monthly at 8.0%, secured by real estate, due February 2005	\$ -	\$ 136,892
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
Mortgage payable to financial institution secured by real estate, non-interest bearing, (discounted based on imputed interest rate of 4.5% with unamortized discount of \$76,252 and \$51,559 at December 31 2005 and 2004 respectively, annual payments of \$125,000 and \$125,000 and, maturing December, 2009	448,441	548,747
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
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
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	-	25,717
Line of credit payable to financial institution, interest monthly at Wall Street prime minus 1% , maturing June, 2006	<u>700,000</u>	<u>-</u>
	<u>\$ 1,148,441</u>	<u>\$ 1,644,891</u>

Habitat has a \$2,000,000 revolving line of credit, of which \$1,300,000 was unused at September 30, 2005.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2005 and 2004

NOTE H – LONG-TERM DEBT (Continued)

Principal maturities of long-term debt at September 30, 2005 are as follows:

<u>Year Ending September 30</u>	
2006	\$ 804,820
2007	109,537
2008	114,466
2009	<u>119,618</u>
	<u>\$ 1,148,441</u>

NOTE I – 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 \$8,286,327 as of September 30, 2005 and \$8,840,434 as of September 30, 2004. These mortgages are not owned by Habitat and, therefore, not reflected in the financial statements.

NOTE J – 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%.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Notes to Financial Statements
September 30, 2005 and 2004

NOTE K – 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 \$130,962 and \$161,827 for the years ended September 30, 2005 and 2004, respectively. This amount is included in program services expense in the statement of functional expenses.

NOTE L – LEE COUNTY CONTRACT

During the year ending September 30, 2005, Habitat entered into various contracts with Lee County totaling \$847,574 in contract funds to construct 43 single-family homes. During the year ended September 30, 2004, Habitat entered into contracts with Lee County totaling \$506,457 in contract funds to construct 29 single-family homes. These contracts were funded through the Florida State Housing Initiative Program.

NOTE M – 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, 2005 and 2004, Habitat's uninsured cash balances total \$2,806,482 and \$1,265,354, respectively.

SUPPLEMENTARY INFORMATION

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

Schedule of Expenditures for State Financial Assistance
September 30, 2005

<u>Grantor/Contract</u>	<u>Lee County Contract Number</u>	<u>Total State Expenditures</u>
<u>Florida</u>		
State Housing Initiatives Partnership Program	C2880	\$ 468,000
	C2382	369,260
	C2880	10,000
	C2984	<u>314</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE		\$ <u>847,574</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, 2005 and have issued our report thereon dated January 9, 2006. 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.
Hughes, Snell & Co., P.A.

Fort Myers, Florida
January 9, 2006

**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, 2005. 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 Findings and Questioned Costs – State Programs and Projects. 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, 2005.

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 9, 2006
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 9, 2006

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

Year Ended September 30, 2005

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		
C2880	\$	468,000
C2611		369,260
C2984		10,000
C2382		314
	\$	<u>847,574</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, 2005, 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, 2005) 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 FINDING:

Habitat leases its employees from an employee leasing company and, therefore, does not directly 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.

In 2005, Habitat issued IRS form 1099's to employees for bonuses.

PRIOR AND CURRENT YEAR FINDING:

During the 2004 audit, we noted various correcting and reclassifying journal entries, primarily related to bookkeeping errors, which were corrected and resolved. During the 2005 audit, we noted similar correcting and reclassifying entries. We also noted that some general ledger journal entries had limited descriptions and did not include adequate supporting documentation.

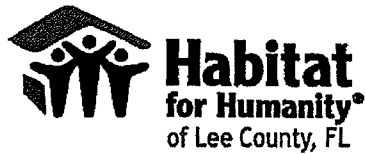
RECOMMENDATION:

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.

Hughes, Snell & Co., P.A.

Hughes, Snell & Co., P.A.
Fort Myers, Florida
January 9, 2006



March 6, 2006

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

Re: INDEPENDENT AUDITORS REPORT TO MANAGEMENT

Hughes Snell & Company:

In response to your report to management on FY 2005 audit report prior and current year comments.

Habitat for Humanity of Lee County, Inc., has continued to implement new policies and procedures to improve expenditure reporting that will minimize the need for journal correction entries. This has included the testing and possible institution of new accounting software to eliminate many of these various and reclassifying ledger entries.

We continue to strive to meet the highest standards of accounting and management.

Thank you,

A handwritten signature in black ink, appearing to read "Vern Archibald".

Vern Archibald
President/CEO
Habitat for Humanity of Lee County, Inc.