

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED FINANCIAL STATEMENTS WITH
SUPPLEMENTARY INFORMATION
YEARS ENDED SEPTEMBER 30, 2007 AND 2006

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INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statement of financial position of Habitat for Humanity of Lee County, Inc. ("Habitat") as of September 30, 2007, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended. These consolidated financial statements are the responsibility of Habitat's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit. The consolidated financial statements of Habitat for Humanity of Lee County, Inc. as of and for the year ended September 30, 2006, were audited by other auditors whose report dated January 5, 2007, expressed as unqualified opinion on those statements.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we 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. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of Habitat as of September 30, 2007, and the results of its operations and its cash flows for the year 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 July 1, 2008 on our consideration of Habitat's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the consolidated financial statements taken as a whole. The accompanying Schedule of Expenditures of State Financial Assistance 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 audit of the basic consolidated financial statements, and in our opinion, is fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

A handwritten signature in black ink, appearing to read "Larson Allen LLP", written in a cursive style.

LARSONALLEN LLP

Fort Myers, Florida
July 1, 2008

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
September 30, 2007 and 2006

	2007	2006
ASSETS		
Cash		
Operating	\$ 4,067,150	\$ 3,833,378
Escrow	59,700	59,690
Pledges and accounts receivable	1,003,121	-
Notes receivable	2,100,000	2,410,670
Investments for gift annuity obligations	422,553	411,175
Prepaid expenses and deposits	3,036	1,112
Building materials inventory	155,800	212,566
Mortgages receivable		
First mortgages	4,782,236	4,815,698
Second mortgages	5,666,663	4,690,547
Land held for home sites	3,325,030	1,847,474
Commercial property held	470,480	467,410
Construction in progress		
Home construction in progress	823,009	693,904
Senior Housing construction in progress	-	4,940,306
Homes completed pending closing	4,843,838	3,211,574
Property and equipment (net)	8,619,080	3,181,101
Total assets	\$ 36,341,696	\$ 30,776,605
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts payable and accrued liabilities	\$ 293,498	\$ 80,539
Escrow accounts payable	59,700	59,690
Annuity obligations payable	285,581	178,839
Long-term debt	1,720,174	1,148,436
Second mortgage receivable reserves	5,666,663	4,690,547
Total liabilities	8,025,616	6,158,051
NET ASSETS		
Unrestricted	18,729,658	21,437,453
Invested in property and equipment	8,619,080	3,181,101
Total unrestricted	27,348,738	24,618,554
Temporarily restricted	967,342	-
Total net assets	28,316,080	24,618,554
Total liabilities and net assets	\$ 36,341,696	\$ 30,776,605

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2007

	Unrestricted	Temporarily Restricted	Total
CHANGES IN UNRESTRICTED NET ASSETS			
REVENUE AND SUPPORT			
Contributions			
Cash and pledges contributions	\$ 2,637,019	\$ 967,342	\$ 3,604,361
Materials and services	378,658	-	378,658
Land donations	5,920	-	5,920
Grants and subsidies	1,218,725	-	1,218,725
Application fees	82,569	-	82,569
Retail store sales	531,155	-	531,155
Special events	306,787	-	306,787
Amortization of mortgage discounts	1,566,597	-	1,566,597
Interest income	280,395	-	280,395
Rental income	278,037	-	278,037
Miscellaneous revenue	(1,362)	-	(1,362)
Gain on sale of mortgages receivable	834,143	-	834,143
	<u>8,118,643</u>	<u>967,342</u>	<u>9,085,985</u>
Transfers to homeowners for mortgage loans	6,550,467	-	6,550,467
Total revenue and support	<u>14,669,110</u>	<u>967,342</u>	<u>15,636,452</u>
 EXPENSES			
Program services			
Construction	10,488,410	-	10,488,410
Retail stores	372,498	-	372,498
	<u>10,860,908</u>	<u>-</u>	<u>10,860,908</u>
Administrative and general	766,175	-	766,175
Fundraising	216,479	-	216,479
Total expenses	<u>11,843,562</u>	<u>-</u>	<u>11,843,562</u>
Change in value of charitable annuities split-interest agreements	(95,364)	-	(95,364)
CHANGES IN NET ASSETS	2,730,184	967,342	3,697,526
NET ASSETS - BEGINNING OF YEAR	<u>24,618,554</u>	<u>-</u>	<u>24,618,554</u>
NET ASSETS - END OF YEAR	<u>\$ 27,348,738</u>	<u>\$ 967,342</u>	<u>\$ 28,316,080</u>

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED SEPTEMBER 30, 2006

	Unrestricted	Temporarily Restricted	Total
CHANGES IN UNRESTRICTED NET ASSETS			
REVENUE AND SUPPORT			
Contributions			
Cash and pledges contributions	\$ 3,728,921	\$ -	\$ 3,728,921
Materials and services	263,217	-	263,217
Land donations	268,718	-	268,718
Grants and subsidies	426,019	-	426,019
Application fees	12,635	-	12,635
Retail store sales	542,675	-	542,675
Special events	246,243	-	246,243
Amortization of mortgage discounts	640,438	-	640,438
Interest income	106,983	-	106,983
Rental income	75,351	-	75,351
Miscellaneous revenue	677,159	-	677,159
Gain on sale of mortgages receivable	1,251,711	-	1,251,711
	<u>8,240,070</u>	-	<u>8,240,070</u>
Transfers to homeowners for mortgage loans	6,011,732	-	6,011,732
Total revenue and support	<u>14,251,802</u>	-	<u>14,251,802</u>
EXPENSES			
Program services			
Construction	8,914,599	-	8,914,599
Retail stores	325,408	-	325,408
	<u>9,240,007</u>	-	<u>9,240,007</u>
Administrative and general	586,820	-	586,820
Fundraising	171,834	-	171,834
Total expenses	<u>9,998,661</u>	-	<u>9,998,661</u>
Change in value of charitable annuities split-interest agreements	29,223	-	29,223
CHANGES IN NET ASSETS	4,282,364	-	4,282,364
NET ASSETS - BEGINNING OF YEAR	<u>20,336,190</u>	-	<u>20,336,190</u>
NET ASSETS - END OF YEAR	<u>\$ 24,618,554</u>	<u>\$ -</u>	<u>\$ 24,618,554</u>

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2007**

2007

	Program		Services		Administrative		Total
	Construction		Retail Stores		and General		
Construction costs	\$ 9,077,413	\$	-	\$	-	\$	9,077,413
Direct program expenses							
Volunteer department	134,506		-		-		134,506
Family services department	28,966		-		-		28,966
Other direct program costs	486,299		-		-		486,299
Tithe to HFHI	612,951		-		-		612,951
Senior housing rental expenses	148,275		-		-		148,275
Program indirect expenses							
Development and communications	-		-		-		216,479
Cost of retail store sales	-		372,498		-		372,498
Administrative indirect expenses							
Office and other salaries	-		-		342,080		342,080
Insurance	-		-		32,056		32,056
Mortgage interest	-		-		15,758		15,758
Office operations	-		-		88,463		88,463
Maintenance	-		-		6,467		6,467
Real estate taxes and fees	-		-		10,543		10,543
Utilities	-		-		36,527		36,527
Miscellaneous	-		-		27,718		27,718
Total Functional Expenses Before Depreciation	10,488,410		372,498		559,612		11,636,999
Depreciation	-		-		206,563		206,563
Total Functional Expenses	\$ 10,488,410	\$	\$ 372,498	\$	\$ 766,175	\$	\$ 11,843,562

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2006

2006

	Program		Services		Administrative		Total
	Construction		Retail Stores		and General	Fundraising	
Construction costs	\$ 7,355,871		\$ -		\$ -		\$ 7,355,871
Direct program expenses							
Volunteer department	280,511		-		-		280,511
Family services department	28,318		-		-		28,318
Other direct program costs	574,785		-		-		574,785
Tithe to HFHI	675,114		-		-		675,114
Program indirect expenses							
Development and communications	-		-		-	171,834	171,834
Cost of retail store sales	-		325,408		-	-	325,408
Administrative indirect expenses							
Office and other salaries	-		-		188,020	-	188,020
Insurance	-		-		30,799	-	30,799
Mortgage interest	-		-		20,180	-	20,180
Office operations	-		-		106,483	-	106,483
Maintenance	-		-		13,304	-	13,304
Real estate taxes and fees	-		-		66,661	-	66,661
Utilities	-		-		33,952	-	33,952
Miscellaneous	-		-		22,412	-	22,412
Total Functional Expenses Before Depreciation	8,914,599		325,408		481,811	171,834	9,893,652
Depreciation	-		-		105,009	-	105,009
Total Functional Expenses	\$ 8,914,599		\$ 325,408		\$ 586,820	\$ 171,834	\$ 9,998,661

See accompanying Notes to Financial Statements.

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**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES		
Changes in net assets	\$ 3,697,526	\$ 4,282,364
Adjustments to reconcile changes in net assets to net cash used in operating activities		
Transfers to homeowners	(5,333,839)	(5,280,501)
Depreciation	206,563	105,009
Gain on sale of mortgages receivable	(834,143)	(1,251,711)
Gain on disposal of property and equipment	(922)	(677,159)
Foreclosures	133,139	60,259
(Increase) decrease in assets		
Pledges and accounts receivable	(1,003,121)	-
Notes receivable	310,672	-
Charitable annuity split-interest agreements	(731)	9,243
Prepaid expenses and deposits	(1,924)	65
Building materials inventory	56,766	(113,173)
Land held for home sites	(1,477,556)	(756,776)
Commercial property held	(3,070)	(875)
Home construction in progress	(129,105)	33,522
Senior housing construction in progress	-	(3,841,834)
Homes completed pending closing	(1,632,264)	2,104,473
Increase (decrease) in liabilities		
Accounts payable, accrued liabilities, imputed interest	228,665	32,126
Annuity obligations payable	145,442	(53,149)
Net cash from operating activities	(5,637,902)	(5,348,117)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(584,800)	(57,139)
Proceeds from the sale of property	13,300	820,529
Notes receivable	-	(710,670)
Collections on notes receivable	-	650,000
Proceeds from the sale of mortgages	5,589,241	5,026,441
Net Investment sales	(10,647)	-
Mortgage payments received	479,054	759,196
Net cash from investing activities	5,486,148	6,488,357
CASH FLOWS FROM FINANCING ACTIVITIES		
Annuity payments	(38,700)	-
Proceeds from notes payable	1,367,393	104,815
Principal payments on notes and mortgages payable	(943,167)	(104,820)
Net cash from financing activities	385,526	(5)
INCREASE IN CASH AND CASH EQUIVALENTS	233,772	1,140,235
CASH AND CASH EQUIVALENTS, beginning of year	3,833,378	2,693,143
CASH AND CASH EQUIVALENTS, end of year	\$ 4,067,150	\$ 3,833,378

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2007 AND 2006**

	<u>2007</u>	<u>2006</u>
Supplemental disclosures of cash flow information:		
Cash paid during the year for interest	<u>\$ 20,421</u>	<u>\$ 20,368</u>

Non-cash transaction:

2007

During the fiscal year ended September 30, 2007 Habitat purchased three vehicles costing \$131,814 under separate financing agreements.

2006

During the fiscal year ended September 30, 2006, Habitat sold property in Labelle, Florida for \$2,000,000 and received a promissory note for \$1,700,000.

In addition, property in North Fort Myers with a book value of \$66,789 and a market value of \$191,360 was exchanged for property with a market value of \$312,140.

See accompanying Notes to Financial Statements.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006**

NOTE 1 – NATURE OF 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 consolidated 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 consolidated financial statement include all of the accounts and activity of Habitat for Humanity Senior Housing LLC ("LLC") a separate Limited Liability Company entity of which Habitat is the sole member. The LLC is the operating entity for the senior housing complex that Habitat rents to senior citizens. All transactions between the two entities have been eliminated in consolidation. Collectively referred to as the "Organization".

The presentation of the consolidated financial statements 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.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Pledges Receivable

Unconditional promises to contribute to the Organization 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.

Investments for Gift Annuity Obligations

Habitat maintains separate investment accounts for amounts related to its gift annuity obligations. All investments are in publicly traded mutual funds and are carried at fair market value.

Building Materials Inventory

Building materials are stated at the lower of cost (utilizing the first-in, first-out method) or market. Donations of building materials (in-kind contributions) are recorded at their estimated fair value at the date of donation.

Mortgages Receivable

First mortgages from the sale of houses are interest free amounts due from the home buyer. Second mortgages on houses represent the difference between the cost of the house and the assigned value of the house. Both mortgages are interest free to the homeowner but are discounted at an appropriate rate of interest for financial statement presentation purposes.

Land for Homes and Commercial Property

Land purchased for homes and commercial property sites is recorded at cost. Donated land is recorded at the donor's appraised amount or the property appraiser's value. All related carrying costs for these properties such as maintenance, any assessments, real estate taxes, etc. are capitalized into the cost of the properties.

Property and Equipment

Property and equipment are 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.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006**

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 consolidated 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.

Construction Costs

Costs of construction consist of a budgeted amount for the land transferred from land inventory to the construction account and direct construction costs. The value of donated labor related to construction is not recognized in the costs of housing construction.

Program Services

Program services include construction, family support, and educational ministries. The cost of home building is charged to program services as the homes are completed and sold.

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 business related income.

Use of Estimates

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

Reclassifications

Certain items in the 2006 financial statements have been reclassified to conform to the 2007 presentation.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006**

NOTE 2 - ESCROW CASH

Funds received from homebuyers prior to closing are held in escrow and restricted to down payment and closing costs on new home sales. Habitat also holds funds in escrow as security deposits for its rental units. These escrow funds are recorded as cash with a corresponding liability in the consolidated financial statements as escrow accounts payable.

NOTE 3 – PLEDGES RECEIVABLE

Habitat has received an unconditional pledge from a private foundation to fund the borrowing of \$967,342 used to purchase lots in Lehigh Acres. The pledge amount is reflected as a temporarily restricted contribution which will be reflected as unrestricted as the required loan payments are made.

The pledge is for \$135,000 per year to be used for the debt service on the loan. That loan is described in Note 9 to the financial statements. The pledge has been discounted at the same interest rate as the associated loan, 7%, and is reflected net of the calculated discount of \$420,345.

As stated above, the pledge amount will be collected at a rate of \$135,000 per year until the note is retired which will be in 2017.

NOTE 4 - NOTE RECEIVABLE

Habitat has promissory notes totaling \$400,000 and \$710,672, at September 30, 2007 and 2006, respectively. The notes are with various companies participating in a matching grant 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.

In June 2006, Habitat sold property in LaBelle, Florida for \$2,000,000 and took a promissory note for \$1,700,000. The note is payable in interest only quarterly payments of \$36,125 with a balloon payment of the balance that was paid on December 31, 2007.

NOTE 5 - MORTGAGES RECEIVABLE

There were first mortgages receivable on 111 homes and 127 homes at September 30, 2007 and 2006, respectively.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006**

NOTE 5 - MORTGAGES RECEIVABLE (CONTINUED)

The following is a summary of the mortgage transactions is presented net of the imputed interest amounts:

	2007	2006
Balance as of beginning of year, previously reported	\$ 4,815,698	\$ 5,574,894
New mortgages	<u>5,172,472</u>	<u>3,580,501</u>
	9,988,170	9,155,395
Payments	(343,296)	(416,976)
Foreclosures	(54,980)	(60,259)
Sales of mortgages	(4,755,099)	(3,774,710)
Modifications and adjustments	<u>(52,559)</u>	<u>(87,752)</u>
Balance as of end of year	\$ <u>4,782,236</u>	\$ <u>4,815,698</u>

Maturities of first mortgage notes receivables are as summarized as follows:

Gross amounts due in:	
Less than one year	\$ -
1 to 5 years	129,985
After 5 years	<u>8,242,304</u>
	8,372,289
Unamortized discount	<u>(3,590,053)</u>
Net amounts due	\$ <u>4,782,236</u>

During the year ended September 30, 2007, Habitat sold mortgages receivable with a book value of \$4,755,098, for \$5,589,241. During the year ended September 30, 2006, Habitat sold mortgages receivable with a book value of \$3,774,700, for \$6,187,795.

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 6 - HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2007, 57 homes were transferred to homeowners and 74 were under construction or completed at year-end. During the year ended September 30, 2006, 55 homes were transferred to homeowners and 51 were under construction or completed at year-end.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006**

NOTE 7 - PROPERTY AND EQUIPMENT

At September 30, 2007 and 2006, the carrying value of property and equipment and the related accumulated depreciation are as follows:

	2007	2006
Land	\$ 1,501,423	\$ 541,562
Buildings	7,134,197	2,725,710
Office fixtures and equipment	44,313	31,930
Computer equipment	86,686	64,475
Forklifts and other equipment	113,603	103,247
Vehicles	<u>607,159</u>	<u>394,906</u>
	9,487,381	3,861,830
Less accumulated depreciation	<u>(868,301)</u>	<u>(680,729)</u>
	<u>\$ 8,619,080</u>	<u>\$ 3,181,101</u>

NOTE 8 - LEASE OBLIGATIONS

Operating Leases

Habitat leases certain vehicles under non-cancelable operating leases with varying terms through June 2009. Rent expense under these leases was \$35,311 and \$55,042, for the years ended September 30, 2007 and 2006, respectively.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2007, are:

<u>Year Ending</u>		
<u>September 30</u>		
2008		\$ 37,431
2009		<u>6,077</u>
	Total Minimum Future Rental Payments	<u>\$ 43,508</u>

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006**

NOTE 9 - LONG-TERM DEBT

	2007	2006
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 \$15,622 and \$31,380, at September 30, 2007 and 2006, respectively, annual payments of \$125,000 maturing December, 2009 (balances are presented before the unamortized discount amounts)	\$ 250,000	\$ 375,000
Line of credit payable to financial institution, annual payments of \$135,000, principal and interest at 7% APR, maturing June, 2012. Secured by pledge receivable.	967,342	-
Line of credit payable to financial institution, interest monthly at Wall Street prime, minus 1%, maturing December, 2008	404,816	804,816
Loans payable to finance vehicle purchases, payable to a finance company. Loan interest rates vary from 0% to 5.9%, monthly payments of approximately \$2,460, final payments due in February 2012.	<u>113,638</u>	<u>-</u>
	<u>\$ 1,735,796</u>	<u>\$ 1,179,816</u>

Principal maturities of long-term debt at September 30, 2007, are as follows:

<u>Year Ending September 30</u>	
2008	\$ 235,586
2009	627,006
2010	103,527
2011	110,293
2012	<u>659,384</u>
	<u>\$ 1,735,796</u>

NOTE 10 - 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 \$18,962,212 as of September 30, 2007 and \$13,059,845, as of September 30, 2006. These mortgages are not owned by Habitat and, therefore, not reflected in the consolidated financial statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

NOTE 11 - 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 6%.

NOTE 12 - TITHE TO HABITAT INTERNATIONAL

Habitat annually remits a portion of both mortgage payments received and proceeds from mortgages sold to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$612,951 and \$675,114, for the years ended September 30, 2007 and 2006, respectively. This amount is included in program services expense in the statement of functional expenses.

NOTE 13 - LEE COUNTY AND CITY OF CAPE CORAL CONTRACTS

During the year ending September 30, 2007, Habitat entered into various contracts with Lee County and the City of Cape Coral totaling \$975,000 in funds to construct 47 single-family homes. During the year ended September 30, 2006, Habitat entered into contracts with Lee County totaling \$94,880 in contract funds to construct four single-family homes. These contracts were funded through the Florida State Housing Initiative Program.

NOTE 14 - CONCENTRATION OF CREDIT

Habitat 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, 2007 and 2006, Habitat's uninsured cash balances totaled approximately \$3,645,000 and \$3,332,000, respectively.

NOTE 15 - MORTGAGE LOAN COMMITMENTS

When Habitat sells mortgages to third parties, it agrees with the buyer to replace any delinquent mortgage loan to the buyer with a mortgage of approximately the same amount. The buyer of the loans must request that this be done. The mortgages noted in note 9 are subject to this replacement requirement.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007 AND 2006

NOTE 16 – RELATED PARTY TRANSACTIONS

The Organization has sold and is continuing to service mortgages with a balance of \$405,486 to entities related and/or controlled by a board member. The Organization has paid \$51,846 to a law firm that has a board member as a stockholder. The Organization maintains its operating account and money market account in a commercial bank that a board member is president of.

NOTE 17 – RETIREMENT PLAN

Habitat's employees participate in a defined contribution plan sponsored by the Professional Employer Organization it uses to lease its employees. Employees eligible to participate in the plan must be at least 21 years of age and three months of service. The plan allows for employee contributions which Habitat may match up to a maximum of 5% of eligible compensation.

SUPPLEMENTARY INFORMATION

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.
North Fort Myers, Florida

We have audited the consolidated financial statements of Habitat for Humanity of Lee County, Inc., (Habitat) as of and for the year ended September 30, 2007, and have issued our report thereon dated July 1, 2008. 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.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles, such that there is more than a remote likelihood that a misstatement of the organization's financial statements that is more than inconsequential will not be prevented or detected by the organization's internal control.

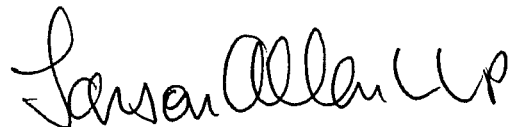
A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the organization's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We identified two deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. These deficiencies are listed in section II of the Schedule of Findings and Questioned Costs.

Compliance and Other Matters

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

This report is intended solely for the information and use of the Board of Directors, management and state awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Larson Allen LLP", written in a cursive style.

LARSONALLEN LLP

Fort Myers, Florida
July 1, 2008

Report on Compliance With Requirements Applicable to Each Major State Project and on Internal Control Over Compliance in Accordance Chapter 10.650 Rules of the Auditor General

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

Compliance

We have audited the compliance of Habitat for Humanity of Lee County, Inc., (Habitat), with the types of compliance requirements described in the Department of Financial Services *State Projects Compliance Supplement* applicable to each of its major state programs and projects for the year ended September 30, 2007. Habitat'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's management. Our responsibility is to express an opinion on Habitat's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 69I-5, Rules of the Florida Department of Financial Services, Florida Administrative Code. Those standards, Chapter 69I-5, 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 state project occurred. An audit includes examining, on a test basis, evidence about Habitat'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 on Habitat's compliance with those requirements.

In our opinion, Habitat 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, 2007.

Internal Control Over Compliance


The management of Habitat 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's internal control over compliance with the requirements that could have a direct and material effect on a major state project to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Habitat's internal control over compliance.

A control deficiency in an entity's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect noncompliance with a type of compliance requirement of a state project on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a state project such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state project that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that material noncompliance with a type of compliance requirement of a state project will not be prevented or detected by the entity's internal control.

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

This report is intended solely for the information and use of the Board of Directors, management, and state awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties..



LARSONALLEN LLP

Fort Myers, Florida
July 1, 2008

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
 SCHEDULE OF EXPENDITURES OF STATE
 FINANCIAL ASSISTANCE
 SEPTEMBER 30, 2007**

<u>Grantor/Contract</u>	<u>CFSA Number</u>	<u>Lee County Contract Number</u>	<u>Total State Expenditures</u>
State Housing Initiatives Partnership Program			
Lee County Contract	52.901	C3464	\$ 632,223
Lee County Contract	52.901	C3571	67,130
Lee County Contract	52.901	C3751	120,000
Cape Coral Contract	**	**	<u>135,400</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			\$ <u>954,753</u>

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

** There was no CFSA or contract number provided for the Cape Coral contract.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF STATE
FINANCIAL ASSISTANCE
SEPTEMBER 30, 2007

(1) PURPOSE OF THE SCHEDULE

The Schedule of Expenditures of State Financial Assistance (the Schedule) is a supplementary schedule to Habitat's basic financial statements and is presented for the purpose of additional analysis. The Schedule is required by *Audits of States, Local Governments, and Non-Profit Organizations* and by Chapter 69I-5, Rules of the Florida Department of Financial Services, Florida Administrative Code, and *Schedule of Expenditures of State Financial Assistance*.

(2) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

State Financial Assistance – Pursuant to Florida Single Audit Act (Section 215.97, Florida Statutes) and Chapter 69I-5, Rules of the Florida Department of Financial Services, Florida Administrative Code, state financial assistance is defined as assistance from state resources, not including federal financial assistance and state matching, provided to nonstate entities to carry out a state project. State Financial Assistance includes all types of state assistance as stated in the rules of the Department of Financial Services, established in consultation with the Comptroller and appropriate state agencies that provide state financial assistance. It includes state financial assistance provided directly by state awarding agencies or indirectly by recipients of state awards. It does not include procurement contracts used to buy goods or services from vendors.

Catalog of State Financial Assistance – Chapter 69I-5, Rules of the Florida Department of Financial Services, Florida Administrative Code, requires the Schedule to show the total state financial assistance expended for each individual state project as identified in the Catalog of State Financial Assistance (CSFA). The CSFA is a comprehensive listing of state projects. State financial assistance projects that have not been assigned a CSFA number are indicated with an "N/A."

Type A and Type B Programs

Each non-state entity that expends a total amount of state financial assistance equal to or in excess of \$500,000 in any fiscal year is required to have a state single audit for such fiscal year in accordance with the requirements of the Florida Single Audit Act (Section 215.97, Florida Statutes). Chapter 69I-5 Rules of the Florida Department of Financial Services establishes the levels of expenditures to be used in defining Type A and Type B state financial assistance projects. Type A state projects for Habitat are those projects with expenditures in excess of \$300,000, which is the greater of \$300,000 or 3% of total state awards expended for the fiscal year ended September 30, 2007.

Basis of Accounting

State financial assistance expenditures included in the Schedule are reported using the accrual basis of accounting.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
 SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
 STATE PROJECTS
 FOR THE YEAR ENDED 2007**

Section I – Summary of Auditors' Results

Financial Statements

Type of auditors' report issued;	Unqualified	
Internal control over financial reporting:		
• Material weakness(es) identified?	<u> X </u> yes	<u> </u> no
• Significant deficiencies identified that are not considered to be material weakness(es)?	<u> </u> yes	<u> X </u> none reported
Noncompliance material to financial statements noted?	<u> </u> yes	<u> X </u> no

State Financial Assistance

Internal control over major state projects:		
• Material weakness(es) identified?	<u> </u> yes	<u> X </u> no
• Reportable condition(s) identified that are not considered to be material weakness(es)?	<u> </u> yes	<u> X </u> none reported
Type of auditor's report issued on compliance for major state projects:	Unqualified	
Any audit findings disclosed that are required to be reported in accordance with Chapter 10.654(1)(h)4., Rules of the Auditor General?	<u> </u> yes	<u> X </u> no

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
STATE PROJECTS
FOR THE YEAR ENDED 2007**

Section I – Summary of Auditors' Results (Continued)

Identification of major projects:

CSFA Number(s)

Name of State Project

52.901

Florida Housing Finance Corporation
State Housing Initiatives Partnership Program

Dollar threshold used to distinguish between
Type A or Type B project was:
Major State Project

\$ 283,726 (30% of total expenditures)

Auditee qualified as low-risk auditee pursuant to
Chapter 691-5.008,
Rules of Auditor General?

_____ yes X no

Section II – Financial Statement Findings

Our audit disclosed the following matters required to be reported in accordance with paragraphs 5.18 through 5.20 of *Government Auditing Standards*.

2007-1 Mortgage Escrow Accounts

In our review and reconciliation of the mortgage escrow cash accounts we compared the cash available for the escrowed amounts to the escrow liability. The cash available for the payment of the liability did not equal and was not sufficient pay the amount of the liability. In our discussions with Habitat personnel we were told that the escrowed cash amount had not been reconciled to the escrow liability.

Because of the sensitivity of the escrow balances to both the individual mortgage holders and to the investors that have purchased mortgages, we consider this error to be a material weakness in the Organization's system of internal control.

We recommend that the reconciliation of escrow monies to the escrow liability be performed every month as part of the regular accounting closing process.

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS –
STATE PROJECTS
FOR THE YEAR ENDED 2007**

Section II – Financial Statement Findings (Continued)

2007-2 Land Inventory

The Organization has not reconciled the detail records of the land inventory to the general ledger control account. The department that maintains the detail records regarding the pieces of property owned by the Organization and the finance department that accounts for the actual costs associated with the land have not reconciled the two sets of records. While we were able to satisfy ourselves that the amount in the accounting records is not overstated, we could not agree that amount to the supporting detail. Due to the large amount invested by the Organization in land, we consider the lack of a reconciling control to be a material weakness in the Organization's system of internal control.

We recommend that the Organization separate the balance and the detail in the current land accounts from subsequent purchases and sales. New accounts should be established for the subsequent activity and that activity should be reconciled between the land and finance departments every month. The existing account and land records can be reduced as they are used or sold until the difference is small enough to be adjusted.

Section III – Findings and Questioned Costs – Major State Projects

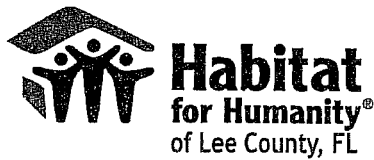
Our audit did not disclose any matters required to be reported in accordance with Chapter 10.654(1)(h)4., Rules of Auditor General.

There were no matters reported in the prior year Schedule of Findings and Questioned Costs required to be reported in accordance with Chapter 10.654(1)(h), Rules of the Auditor General.

A "management letter" required by Sections 215.97(8)(g), and 215.97(10)(d), Florida Statutes, and defined in Rule 10.654(1)(e), has not been included as there are no items related to State financial assistance required to be reported.

Section IV – Other Issues

No corrective action plan is required because there were no findings required to be reported under the Florida Single Audit Act.



July 31, 2008

Clifford Chaipel, CPA
LarsonAllen CPAs, Consultants & Advisors
6810 International Center Boulevard
Fort Myers, FL 33912

Re: Independent Auditors' Report to Management
Fiscal Year 2007

Dear Mr. Chaipel,

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

FINDING:

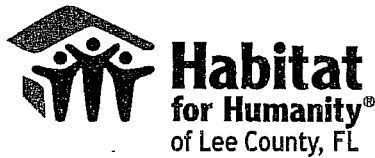
The cash available for the payment of the liability did not equal and was not sufficient to pay the amount of the liability. In our discussions with Habitat personnel we were told that the escrowed cash amount had not been reconciled to the escrow liability

RECOMMENDATION:

We recommend that the reconciliation of escrow monies to the escrow liability be performed every month as part of the regular accounting closing process.

RESPONSE:

Habitat for Humanity of Lee County, Inc. did have more than sufficient cash available in other accounts to cover the escrow liabilities. However, we have now implemented a reconciliation review process every month to verify that the organization has enough funds to cover this liability. In addition, we will verify the funds required at the end of the year and transfer any necessary funds to the specific Mortgage Escrow bank account at that time, since the amount will fluctuate every month and this would be very time intensive for our staff.



FINDING:

The Organization has not reconciled the detail records of the land inventory to the general ledger control account. The department that maintains the detail records regarding the pieces of property owned by the Organization and the finance department that accounts for the actual costs associated with the land have not reconciled the two sets of records.

RECOMMENDATION:

We recommend that the Organization separate the balance and the detail in the current land accounts from subsequent purchases and sales. New accounts should be established for subsequent activity and that activity should be reconciled between the land and the finance departments every month. The existing account and land records can be reduced as they are used or sold until the difference is small enough to be adjusted.

RESPONSE:

Habitat is going to make a one time adjustment to reflect this change and we will reconcile the books every month between the two departments.

Thank you,

A handwritten signature in black ink, appearing to read "Richard H. Shera, Jr." with a stylized flourish at the end.

Richard H. Shera, Jr.
Executive Vice President
Chief Financial Officer