HABITAT FOR HUMANITY OF LEE COUNTY, INC.

CONSOLIDATED FINANCIAL STATEMENTS WITH SUPPLEMENTARY INFORMATION

YEARS ENDED SEPTEMBER 30, 2008 AND 2007

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
TABLE OF CONTENTS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

INDEPENDENT AUDITORS' REPORT	1
CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION	3
CONSOLIDATED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS	4
CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES	6
CONSOLIDATED STATEMENTS OF CASH FLOWS	8
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS	10
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*	19
REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH CHAPTER 10.650, RULES OF THE AUDITOR GENERAL	21
SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE	23
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE	24
SCHEDULE OF FINDINGS AND QUESTIONED COSTS - STATE PROJECTS	25
MANAGEMENT RESPONSE TO FINANCIAL STATEMENT FINDINGS	28

INDEPENDENT AUDITORS' REPORT

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

We have audited the accompanying consolidated statements of financial position of Habitat for Humanity of Lee County, Inc. ("Habitat") as of September 30, 2008 and 2007, and the related statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 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 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 audits provide 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, 2008 and 2007, 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 13, 2009 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.

NEXIA INTERNATIONAL
LarsonAllen LLP is a member of Nexia International,
a worldwide network of independent accounting and consulting firms.

Our audits were 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 audits of the basic consolidated financial statements, and in our opinion, are fairly stated, in all material respects, in relation to the basic consolidated financial statements taken as a whole.

LarsonAllen LLP

LarsonAllen LLP

Fort Myers, Florida
January 13, 2009

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2008 AND 2007

	2008	2007
ASSETS		
Cash and Cash Equivalents		
Operating	$ 2,825,284	$ 4,067,150
Escrow	33,488	59,700
Pledges and Accounts Receivable	1,473,363	1,003,121
Notes Receivable	200,000	2,100,000
Investments for Gift Annuity Obligations	305,376	422,553
Prepaid Expenses and Deposits	12,773	3,036
Building Materials Inventory	269,098	155,800
First and Second Mortgages Receivable, net of a 100% Reserve for 2nd Mortgages of $5,959,463 and $5,666,663 for 2008 and 2007 respectively	7,040,536	4,782,236
Land Held for Home Sites	2,992,694	3,325,030
Commercial Property Held	105,786	470,480
Construction in Progress		
Home Construction in Progress	3,866,754	4,843,838
Homes Completed Pending Closing	1,278,480	823,009
Property and Equipment (Net)	8,568,319	8,619,080
Total Assets	$ 28,971,951	$ 30,675,033
LIABILITIES AND NET ASSETS		
LIABILITIES		
Accounts Payable and Accrued Liabilities	$ 251,505	$ 293,498
Escrow Accounts Payable	33,063	59,700
Annuity Obligations Payable	271,594	285,581
Long-Term Debt	1,120,111	1,720,174
Total Liabilities	1,676,273	2,358,953
NET ASSETS		
Unrestricted	17,895,017	18,729,658
Invested in Property and Equipment	8,568,319	8,619,080
Total Unrestricted	26,463,336	27,348,738
Temporarily Restricted	832,342	967,342
Total Net Assets	27,295,678	28,316,080
Total Liabilities and Net Assets	$ 28,971,951	$ 30,675,033

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, 2008

	Unrestricted	Temporarily Restricted	Total
CHANGES IN UNRESTRICTED NET ASSETS			
REVENUE AND SUPPORT			
Contributions			
Cash and Pledges Contributions	$ 2,258,093	$ -	$ 2,258,093
Materials and Services	366,016	-	366,016
Condominium and Land Donations	328,410	-	328,410
Grants and Subsidies	1,627,916	-	1,627,916
Application Fees	63,475	-	63,475
Retail Store Sales	526,350	-	526,350
Special Events	369,881	-	369,881
Amortization of Mortgage Discounts	421,009	-	421,009
Interest Income	145,745	-	145,745
Rental Income	338,992	-	338,992
Miscellaneous Revenue	64,942	-	64,942
Gain on Sale of Mortgages Receivable	263,992	-	263,992
Net Assets Released from Restriction	135,000	(135,000)	-
	6,909,821	(135,000)	6,774,821
Transfers to Homeowners for Mortgage Loans	4,655,210	-	4,655,210
Total Revenue and Support	11,565,031	(135,000)	11,430,031
EXPENSES			
Program Services			
Construction	10,432,684	-	10,432,684
Retail Stores	353,790	-	353,790
Contributions	478,921	-	478,921
	11,265,395	-	11,265,395
Administrative and General	922,068	-	922,068
Fundraising	154,812	-	154,812
Total Expenses	12,342,275	-	12,342,275
Change in Value of Charitable Annuities Split-Interest Agreements	(108,158)	-	(108,158)
CHANGES IN NET ASSETS	(885,402)	(135,000)	(1,020,402)
NET ASSETS - BEGINNING OF YEAR	27,348,738	967,342	28,316,080
NET ASSETS - END OF YEAR	$ 26,463,336	$ 832,342	$ 27,295,678

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
	8,118,643	967,342	9,085,985
Transfers to Homeowners for Mortgage Loans	6,550,467	-	6,550,467
Total Revenue and Support	14,669,110	967,342	15,636,452
EXPENSES			
Program Services			
Construction	10,488,410	-	10,488,410
Retail Stores	372,498	-	372,498
	10,860,908	-	10,860,908
Administrative and General	766,175	-	766,175
Fundraising	216,479	-	216,479
Total Expenses	11,843,562	-	11,843,562
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	24,618,554	-	24,618,554
NET ASSETS - END OF YEAR	$ 27,348,738	$ 967,342	$ 28,316,080

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2008

	Program Series			Administrative		
	Construction	Retail Stores	Contributions	and General	Fundraising	Total
Construction Costs	$ 9,413,608	$ -	$ -	$ -	$ -	$ 9,413,608
Direct Program Expenses						
Volunteer Department	137,435	-	-	-	-	137,435
Family Services Department	58,137	-	-	-	-	58,137
Other Direct Program Costs	528,830	-	-	-	-	528,830
Tithe to HFHI	148,484	-	-	-	-	148,484
Senior Housing Rental Expenses	146,190					146,190
Program Indirect Expenses						
Development and Communication	-	-	-	-	154,812	154,812
Cost of Retail Store Sales	-	353,790	-	-		353,790
Contributions	-	-	478,921	-	-	478,921
Administrative Indirect Expenses	-	-				-
Office and Other Salaries	-	-	-	199,891	-	199,891
Insurance	-	-	-	22,521	-	22,521
Mortgage Interest	-	-	-	15,621	-	15,621
Office Operations	-	-	-	197,137	-	197,137
Maintenance	-	-	-	4,441	-	4,441
Real Estate Taxes and Fees	-	-	-	76,779	-	76,779
Utilities	-	-	-	37,021	-	37,021
Miscellaneous	-	-	-	45,648	-	45,648
Total Functional Expenses Before Depreciation	10,432,684	353,790	478,921	599,059	154,812	12,019,266
Depreciation	-	-	-	323,009	-	323,009
Total Functional Expenses	$ 10,432,684	$ 353,790	$ 478,921	$ 922,068	$ 154,812	$ 12,342,275

See accompanying Notes to Financial Statements.

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

	Program Series		Administrative		
	Construction	Retail Stores	and General	Fundraising	Total
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	216,479
Cost of Retail Store Sales	-	372,498	-	-	372,498
Contributions	-	-	-	-	-
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	216,479	11,636,999
Depreciation	-	-	206,563	-	206,563
Total Functional Expenses	$ 10,488,410	$ 372,498	$ 766,175	$ 216,479	$ 11,843,562

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash Received from Contracts and Donations	$ 6,365,023	$ 8,494,895
Cash Payments for Program and Support Services	(10,266,680)	(14,392,771)
Cash Received for Interest	145,745	280,395
Cash Payments for interest	(29,039)	(20,421)
Net Cash from Operating Activities	(3,784,951)	(5,637,902)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of Property and Equipment	(237,519)	(584,800)
Proceeds From the Sale of Property	1,808	13,300
Payments Received from Notes Receivable	1,900,000	-
Proceeds from the Sale of Mortgages	990,672	5,589,241
Net Investment Sales	47,550	(10,647)
Mortgage Payments Received	519,686	479,054
Net Cash from Investing Activities	3,222,197	5,486,148
CASH FLOWS FROM FINANCING ACTIVITIES		
Annuity Payments	(38,700)	(38,700)
Proceeds from Notes Payable	200,000	1,367,393
Principal Payments on Notes and Mortgages Payable	(840,412)	(943,167)
Net Cash from Financing Activities	(679,112)	385,526
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(1,241,866)	233,772
CASH AND CASH EQUIVALENTS, Beginning of Year	4,067,150	3,833,378
CASH AND CASH EQUIVALENTS, End of Year	$ 2,825,284	$ 4,067,150

See accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2008 AND 2007

	2008	2007
Changes in Net Assets	$ (1,020,402)	$ 3,697,526
Adjustments to Reconcile Changes in Net Assets to Net Cash From Operating Activities		
Transfers to Homeowners	(4,293,356)	(5,333,839)
Depreciation	331,012	206,563
Gain on Sale of Mortgages Receivable	(263,992)	(834,143)
Loss (Gain) on Disposal of Property and Equipment	1,034	(922)
Foreclosures and Deeds in Lieu	788,690	133,139
Donated Condominiums	(315,000)	-
Donated Land Held for Home Sites	(31,990)	-
Donated Property and Equipment	(5,225)	-
(Increase) Decrease in Assets		
Pledges and Accounts Receivable	(470,242)	(1,003,121)
Notes Receivable	-	310,672
Charitable Annuity Split-Interest Agreements	108,327	(731)
Prepaid Expenses and Deposits	(9,737)	(1,924)
Building Materials Inventory	(113,298)	56,766
Land Held for Home Sites	364,326	(1,477,556)
Commercial Property Held	364,694	(3,070)
Home Construction in Progress	(2,908,745)	(129,105)
Homes Completed Pending Closing	3,745,358	(1,632,264)
Increase (Decrease) in Liabilities		
Accounts Payable, Accrued Liabilities, Imputed Interest	(42,418)	228,665
Annuity Obligations Payable	(13,987)	145,442
Net Cash from Operating Activities	$ (3,784,951)	$ (5,637,902)

Supplemental Disclosures of Cash Flow Information:

Property and Equipment Purchased Through Acquisition of Debt	$ 40,349	$ 131,814

See accompanying Notes to Financial Statements.

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 statements 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 and the two entities are collectively referred to as the "Organization".

The presentation of the consolidated financial statements is in accordance with 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.

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 when the residence is transferred to the occupant. 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.

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. 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 as revenue. 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.

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

The Internal Revenue Service has determined that the Organization is exempt from federal income taxes under the provisions of Internal Revenue Section 501(c)(3). Accordingly, no provision for income taxes has been made in these financial statements. Habitat has never been audited by the Internal Revenue Service.

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.

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

Financial Statement Presentation Changes

The 2007 financial statements have been adjusted from the previous presentation to reflect the amount of the second mortgages receivable to be net of the reserve rather than presenting the amounts as a separate asset and liability. Habitat feels that this presentation is more accurate as the second mortgages reserve amount is 100% to more accurately reflect that the second mortgages are normally not collected from the homeowners. This presentation does not have any effect on the statement of activities and changes in net assets for either the 2008 or the 2007 years.

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

In 2007, Habitat received an unconditional pledge from a private foundation to fund the borrowing of $967,342 used to purchase lots in Lehigh Acres. The pledge will be paid in installments of $135,000 per year, which will be used to fund the repayment of the mortgage on the property disclosed in Note 9.

The pledge was recorded as a temporarily restricted contribution in the 2007 financial statements. Upon payment of the yearly installment, the amount of the payment will be reclassified from a temporarily restricted contribution to unrestricted. Accordingly, a $135,000 in Net Assets Released from Restriction is reflected for the year ended September 30, 2008 in the Consolidated Statement of Activities.

NOTE 4 NOTE RECEIVABLE

Habitat has promissory notes due to it totaling $200,000 and $400,000, at September 30, 2008 and 2007, 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.

At September 30, 2007 Habitat had a note receivable from an individual for $1,700,000 from the sale of property. The note was paid in December of 2007 as agreed.

NOTE 5 MORTGAGES RECEIVABLE

There were first mortgages receivable on 148 homes and 111 homes at September 30, 2008 and 2007, respectively.

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

	2008	2007
Balance, Beginning of Year	$ 4,782,236	$ 4,815,698
New Mortgages	3,855,416	5,172,472
	8,637,652	9,988,170
Payments	(388,951)	(343,296)
Foreclosures and Deeds in Lieu	(445,022)	(54,980)
Sales of Mortgages	(726,680)	(4,755,099)
Modifications and Adjustments	(36,463)	(52,559)
Balance, End of Year	$ 7,040,536	$ 4,782,236

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

Gross Amounts Due in:		2008	2007
	Less than One Year	$ 1,496	$ -
	1 to 5 Years	91,747	129,985
	After 5 Years	11,235,568	8,242,304
		11,328,811	8,372,289
Unamortized Discount		(4,288,275)	(3,590,053)
Net Amounts Due		$ 7,040,536	$ 4,782,236

During the year ended September 30, 2008, Habitat sold mortgages receivable with a book value of $726,680 for $990,672. During the year ended September 30, 2007, Habitat sold mortgages receivable with a net book value of $4,755,098 for $5,589,241.

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, 2008, 59 homes were transferred to homeowners and 52 were under construction or completed at year-end. During the year ended September 30, 2007, 57 homes were transferred to homeowners and 74 were under construction or completed at year-end.

NOTE 7 PROPERTY AND EQUIPMENT

At September 30, 2008 and 2007, the carrying value of property and equipment and the related accumulated depreciation are as follows:

	2008	2007
Land	$ 1,506,163	$ 1,501,423
Buildings	7,244,119	7,134,197
Office Fixtures and Equipment	55,891	44,313
Computer Equipment	116,875	86,686
Forklifts and Other Equipment	126,885	113,603
Vehicles	691,491	607,159
	9,741,424	9,487,381
Less Accumulated Depreciation	1,173,105	868,301
	$ 8,568,319	$ 8,619,080

NOTE 8 LEASE OBLIGATIONS

Operating Leases

Habitat leases certain vehicles and office equipment under non-cancelable operating leases with varying terms through August 2012. Rent expense under these leases was $32,216 and $35,311 for the years ended September 30, 2008 and 2007, 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:

Year Ending September 30,	
2009	$ 18,128
2010	12,648
2011	12,203
2012	9,651
Total Minimum Future Rental Payments	$ 52,630

NOTE 9 LONG-TERM DEBT

	2008	2007
Line of credit payable to financial institution, annual payments of $132,995, principal and interest at 7% APR, maturing June 2012; secured by real estate.	$ 862,673	$ 967,342
Line of credit payable to financial institution, interest monthly as Wall Street prime minus 1%, maturing December 2008; unsecured.	200,051	404,816
Loans payable to finance vehicle purchases, payable to a finance company at 0% interest and monthly payments of $2,263 with final payments due July 2010.	57,387	113,638
Note repaid in 2008	-	250,000
	$ 1,120,111	$ 1,735,796

Principal maturities of long-term debt at September 30, 2008, are as follows:

Year Ending September 30,	
2009	$ 296,127
2010	96,852
2011	85,958
2012	641,174
	$ 1,120,111

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 also services mortgages totaling $18,997,645 as of September 30, 2008 and $18,962,212, as of September 30, 2007 that it sold to outside investors. These mortgages are not owned by Habitat and, therefore, are not reflected in the consolidated financial statements.

NOTE 11 CHARITABLE GIFT ANNUITY SPLIT-INTEREST AGREEMENTS

Habitat has received donations in the form of charitable gift annuities. A 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.

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 $148,484 and $612,951, for the years ended September 30, 2008 and 2007, 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, 2008, Habitat entered into various contracts with Lee County and the City of Cape Coral totaling $798,000 to construct 17 single-family homes. During the year ended September 30, 2007, Habitat entered into contracts with Lee County totaling $975,000 in contract funds to construct 47 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 the statutory limit. At September 30, 2008 and 2007, Habitat's uninsured cash balances totaled approximately $3,500,000 and $3,645,000, respectively.

NOTE 15 MORTGAGE LOAN COMMITMENTS

When Habitat sells mortgages to third parties, it agrees with the buyer to replace any delinquent mortgage loan with a mortgage of approximately the same amount. The buyer of the loans must request that this be done. The mortgages noted in Note 10 are subject to this replacement requirement.

NOTE 16 RELATED PARTY TRANSACTIONS

The Organization sold mortgages with a balance of $351,261 and $405,486 during the years ended September 30, 2008 and 2007, respectively, to entities related and/or controlled by a board member. The Organization continues to service these mortgages.

The Organization paid $62,770 and $51,846 to a law firm that has a board member as a stockholder in the years ended September 30, 2008 and 2007, respectively.

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.

NOTE 18 CONTINGENCY

Habitat is involved in a number of legal actions relating to delinquent mortgages. It is the policy of Habitat to foreclose or receive the residence by way of a deed in lieu of foreclosure. Habitat does not anticipate any losses to be incurred from any of these legal actions.

NOTE 19 SUBSEQUENT EVENT

In November 2008, Habitat repurchased mortgage receivables from an investor for $221,231. The mortgages have a balance of $326,535, but were initially sold to the investor at a discount. Habitat repurchased the mortgages based upon the carrying value of the mortgages on the investor's records.

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, 2008, and have issued our report thereon dated January 13, 2009. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States.

Internal Control over Financial Reporting

In planning and performing our audit, we considered 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 the 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 the internal control that might be significant deficiencies and accordingly, would not necessarily disclose all significant deficiencies that are also considered to be 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.

NEXIA INTERNATIONAL
LarsonAllen LLP is a member of Nexia International,
a worldwide network of independent accounting and consulting firms.

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.*

Habitat's response to the finding identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs - State Projects. We did not audit Habitat's responses and, accordingly, we express no opinion on it.

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

LarsonAllen LLP

Fort Myers, Florida
January 13, 2009

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR STATE PROJECT AND ON INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH 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, 2008. 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 United States generally accepted auditing standards; 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, 2008.

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.

NEXIA INTERNATIONAL
LarsonAllen LLP is a member of Nexia International,
a worldwide network of independent accounting and consulting firms.

Accordingly, we do not express an opinion on the effectiveness of the Habitat's internal control over compliance.

Our consideration of internal control 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 noncompliance with applicable requirements of laws, regulations, contracts, and grants that would be material in relation to a major state project being audited may occur and not be detected within a timely period by employees in their 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 weaknesses.

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

LarsonAllen LLP

Fort Myers, Florida
January 13, 2009

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
SEPTEMBER 30, 2008

Grantor/Contract	CFSA Number	Lee County Contract Number	Total State Expenditures
State Housing Initiatives Partnership Program			
Lee County Contract	52.901	C3464	$ 62,523
Lee County Contract	52.901	C3571	450,000
Lee County Contract	52.901	C3935	215,605
Lee County Contract	52.901	C4242	390,000
Cape Coral Contract 2005-2006	**	**	163,108
Cape Coral Contract 2006-2007	**	**	121,030
Cape Coral Contract 2007-2008	**	**	55,735
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			$ 1,458,001

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

** There was no CFSA or contract number provided by the city of Cape Coral for their contracts but the contracts were described as being funded by the State Housing Initiatives Partnership Programs.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
NOTES TO SCHEDULE OF EXPENDITURES OF STATE FINANCIAL ASSISTANCE
SEPTEMBER 30, 2008

(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, 2008.

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 SEPTEMBER 30, 2008

Section I – Summary of Auditors' Results

Financial Statements

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

State Financial Assistance

Internal control over major state projects:		
• Material weakness(es) identified?	____ yes	X no
• Significant deficiency(ies) identified that are not considered to be material weakness(es)?	____ yes	X 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?	____ yes	X no

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 $300,000

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.*

2008-1 Annuity Investments and Obligation

We noted during our testing of the annuity obligation that the Organization did not adjust the accounting records throughout the year, requiring material entries to be necessary during the year-end audit. Under the definition of Statement of Auditing Standard No. 112, material adjustments such as the one described here constitutes a material weakness in internal control. Due to the low level of activity that occurs within the investment account, we recommend that the Organization record the activity on a quarterly basis in the accounting system.

2008-2 Accounts Payable Cutoff

The Organization closed its accounting records immediately after year-end; therefore, not allowing invoices received after year-end to be recorded as year-end payables. Upon our review of subsequent disbursements, we noted $81,845 in expenses which were not recorded properly in the fiscal year ended September 30, 2008. Due to the materiality of the invoices, we consider this to be a material weakness in internal control under the definition of Statement of Auditing Standard No. 112. We recommend that the Organization keep its records open for a longer period of time after year-end or accrue an estimate for invoices to be received in the following weeks.

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.

Habitat for Humanity® of Lee County, FL

January 13, 2008

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

RE: Independent Auditor's Report to Management
Fiscal Year 2008

Dear Mr. Chaipel,

In response to Section II – Financial Statement Findings 2008-1: Annuity Investment and Obligations: We will record the activity in the investment account on a quarterly basis.

In response to Section II – Financial Statement Findings 2008-2: Accounts Payable Cutoff. We will keep our records open for a sufficient period of time to allow us to estimate and accrue material open invoices.

Thank you,

Richard H. Shera, Jr. EVP/CFO.

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

1288 North Tamiami Trail, North Fort Myers, FL 33903 • 239.652.0434 (phone) • 239.652.0386 (fax)
500 Andalusia Boulevard, Cape Coral, FL 33909 • 239.772.0337
www.habitat4humanity.org