

**HABITAT FOR HUMANITY
OF LEE COUNTY, INC.**

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2009

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

**CONSOLIDATED FINANCIAL REPORT
SEPTEMBER 30, 2009**

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INDEPENDENT AUDITOR'S 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.** as of September 30, 2009, and the related statements 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. for the year ended September 30, 2008 were audited by other auditors whose report, dated January 13, 2009, expressed an 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 for Humanity of Lee County, Inc. as of September 30, 2009, and the results of its operations and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 18, 2010 on our consideration of Habitat for Humanity of Lee County, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 considered in assessing 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 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
January 18, 2010

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION SEPTEMBER 30, 2009 AND 2008

<u>Assets</u>	<u>2009</u>	<u>2008</u>
Cash and cash equivalents		
Operating	\$ 2,962,343	\$ 2,825,284
Escrow	19,600	33,488
Pledges and accounts receivable	856,270	1,473,363
Notes receivable	196,956	200,000
Investments for gift annuity obligations	243,773	305,376
Prepaid expenses and deposits	1,759	12,773
Building materials inventory	201,630	269,098
First and second mortgages receivable, net of an allowance for doubtful accounts of \$5,793,590 and \$5,959,463 for 2009 and 2008, respectively	5,486,976	7,040,536
Land held for home sites	1,638,464	2,992,694
Commercial property held	51,250	105,786
Construction in progress		
Home construction in progress	1,330,983	3,866,754
Homes completed pending closing	1,349,373	1,278,480
Property and equipment, net	8,480,384	8,568,319
Total assets	\$ 22,819,761	\$ 28,971,951
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and accrued liabilities	\$ 216,750	\$ 251,505
Escrow accounts payable	19,600	33,063
Annuity obligations payable	268,531	271,594
Long-term debt	1,112,327	1,120,111
Total liabilities	1,617,208	1,676,273
Net assets:		
Unrestricted	20,414,030	26,463,336
Temporarily restricted	788,523	832,342
Total net assets	21,202,553	27,295,678
Total liabilities and net assets	\$ 22,819,761	\$ 28,971,951

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2009

	Unrestricted	Temporarily Restricted	Total
Changes in unrestricted net assets			
Revenue and support:			
Contribution			
Cash and pledge contributions	\$ 1,482,311	\$ -	\$ 1,482,311
Materials and services	502,584	-	502,584
Condominium and land donations	229,219	-	229,219
Grants and subsidies	926,571	-	926,571
Application fees	96,139	-	96,139
Retail store sales	482,348	-	482,348
Special events	229,351	-	229,351
Amortization of mortgage discounts	233,830	-	233,830
Interest income	22,509	-	22,509
Rental income	218,760	-	218,760
Miscellaneous revenue	55,625	-	55,625
Gain on sale of mortgages receivable	158,892	-	158,892
(Loss) on disposal of assets	(37,117)	-	(37,117)
Net assets released from restriction	43,819	(43,819)	-
	4,644,841	(43,819)	4,601,022
Transfers to homeowners for mortgage loans	1,697,988	-	1,697,988
Total revenue and support	6,342,829	(43,819)	6,299,010
Expenses			
Program services			
Construction	5,988,273	-	5,988,273
Retail stores	283,874	-	283,874
Contributions	157,754	-	157,754
Total program service expenses	6,429,901	-	6,429,901
Administrative and general	907,091	-	907,091
Fundraising	176,339	-	176,339
Total administrative and general and fundraising expenses	1,083,430	-	1,083,430
Impairment loss	4,381,867	-	4,381,867
Loan loss expense	500,000	-	500,000
Change in value of charitable annuities split-interest agreements	(3,063)	-	(3,063)
	(6,049,306)	(43,819)	(6,093,125)
Changes in net assets			
Net assets - beginning of year	26,463,336	832,342	27,295,678
Net assets - end of year	\$ 20,414,030	\$ 788,523	\$ 21,202,553

See Notes to Consolidated 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:			
Contribution			
Cash and pledge 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 Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2009

	Program Services			Administrative and General	Fundraising	Total
	Construction	Retail Stores	Contributions			
Construction costs	\$ 5,595,962	\$ -	\$ -	\$ -	\$ -	\$ 5,595,962
Direct program expenses						
Volunteer department	135,769	-	-	-	-	135,769
Family services department	102,063	-	-	-	-	102,063
Tithe to HFHI	154,479	-	-	-	-	154,479
Program indirect expenses						
Development and communication	-	-	-	-	176,339	176,339
Cost of retail store sales	-	283,874	-	-	-	283,874
Contributions	-	-	157,754	-	-	157,754
Administrative indirect expenses						
Office and other salaries	-	-	-	174,967	-	174,967
Insurance	-	-	-	26,571	-	26,571
Mortgage interest	-	-	-	49,979	-	49,979
Office operations	-	-	-	112,199	-	112,199
Maintenance	-	-	-	24,746	-	24,746
Real estate taxes and fees	-	-	-	114,444	-	114,444
Utilities	-	-	-	32,587	-	32,587
Miscellaneous	-	-	-	13,827	-	13,827
Total functional expenses before depreciation	5,988,273	283,874	157,754	549,320	176,339	7,155,560
Depreciation	-	-	-	357,771	-	357,771
Total functional expenses	\$ 5,988,273	\$ 283,874	\$ 157,754	\$ 907,091	\$ 176,339	\$ 7,513,331

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES YEAR ENDED SEPTEMBER 30, 2008

	Program Services			Administrative and General	Fundraising	Total
	Construction	Retail Stores	Contributions			
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	<u>\$ 10,432,684</u>	<u>\$ 353,790</u>	<u>\$ 478,921</u>	<u>\$ 922,068</u>	<u>\$ 154,812</u>	<u>\$ 12,342,275</u>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contracts and donations	\$ 7,164,919	\$ 6,365,023
Cash payments for program and support services	(7,957,785)	(10,266,680)
Cash received for interest	22,509	145,745
Cash payments for interest	(49,979)	(29,039)
Net cash from operating activities	(820,336)	(3,784,951)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(340,119)	(237,519)
Proceeds from the sale of property	33,166	1,808
Payments received from notes receivable, net	3,044	1,900,000
Proceeds from the sale of mortgages	757,609	990,672
Net investment sales	-	47,550
Mortgage payments received	550,179	519,686
Net cash from investing activities	1,003,879	3,222,197
CASH FLOWS FROM FINANCING ACTIVITIES:		
Annuity payments	(38,700)	(38,700)
Proceeds from notes payable	109,667	200,000
Principal payments on notes and mortgages payable	(117,451)	(840,412)
Net cash from financing activities	(46,484)	(679,112)
Increase (decrease) in cash and cash equivalents	137,059	(1,241,866)
Cash and cash equivalents, beginning of year	2,825,284	4,067,150
Cash and cash equivalents, end of year	\$ 2,962,343	\$ 2,825,284

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2009 AND 2008

	2009	2008
Changes in net assets	\$ (6,093,125)	\$ (1,020,402)
Adjustments to reconcile changes in net assets to net cash from operating activities		
Depreciation	357,771	331,012
Impairment loss	4,381,867	-
Loan loss expense	500,000	-
Gain on sale of mortgages receivable	(158,892)	(263,992)
Gain on foreclosure	(53,588)	-
Loss (gain) on disposal of property and equipment	37,117	1,034
Donated condominiums	-	(315,000)
Donated land held for home sites	(229,219)	(31,990)
Donated property and equipment	-	(5,225)
Donated materials and services	(107,626)	-
(Increase) decrease in assets		
Pledges and accounts receivable	617,518	(470,242)
Charitable annuity split-interest agreements	100,303	108,327
Prepaid expenses and deposits	11,014	(9,737)
Building materials inventory	67,468	(113,298)
Land held for home sites	(75,317)	364,326
Commercial property held	54,536	364,694
Home construction in progress	1,658,855	(6,413,411)
Homes completed pending closing	(1,809,452)	3,745,358
Increase (decrease) in liabilities		
Accounts payable, accrued liabilities, imputed interest	(76,503)	(42,418)
Annuity obligations payable	(3,063)	(13,987)
	\$ (820,336)	\$ (3,784,951)
 Net cash from operating activities		
 CASH FLOWS FROM FINANCING ACTIVITIES:		
 Property and equipment purchased through acquisition of debt	\$ 109,667	\$ 40,349

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Organization

Habitat for Humanity of Lee County, Inc. (“Habitat”) is a non-profit organization funded by public contributions. The organization was incorporated on 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.

Significant Accounting Policies

Principles of Consolidation

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.”

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.

Temporarily Restricted Net Assets

Temporarily restricted net assets are those resources currently available for use, but expendable only for purposes specified by the donor. Such resources originate from contributions restricted for specific purposes.

Gifts and Contributions

Habitat records contributions upon receipt of an unconditional promise to give, less an allowance for uncollectible amounts and an allowance for the present value of gifts to be received over more than one year. Gifts, bequests, and other promises or receipts restricted by donors as to use or time period are recorded as temporarily restricted net assets until used in the manner designated or upon expiration of the time period. Donated property and equipment are recorded at fair market value at the date received as unrestricted or restricted net assets, based on the donor’s intent. When the assets are used for their intended purposes, the applicable amount is transferred to unrestricted net assets. Unrestricted contributions received are recorded as contribution revenue.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments for Gift Annuity Obligations

Habitat is a named beneficiary under certain charitable gift annuity arrangements. Under these arrangements, Habitat receives the contributed amounts upon the execution of the agreement and is required to pay a fixed annuity to the donor during the lifetime of the donor. Habitat has recorded the contributed assets based on fair value and the annuity obligation based on the present value of future cash flows expected to be paid. The difference between the fair value of amounts contributed and the annuity obligation is recognized as unrestricted contribution revenue. Changes in the recorded assets and annuity obligations due to changes in life expectancy, present value actuarial assumptions, or market value of assets are reflected as other revenue in the accompanying statements of operations.

Upon death of the grantor and the receipt of the monies, Habitat will recognize the revenues according to the donor restrictions, if any. A discount rate of 6% was used to determine the present value of all split-interest agreements at September 30, 2009.

Building Materials Inventory

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

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.

A loan is considered impaired when it is probable, based on current information and events, the Organization will be unable to collect all principal payments due in accordance with the contractual terms of the loan agreement. Factors considered by management in determining impairment include payment status, collateral value, and the probability of collecting scheduled principal payments when due. Loans that experience insignificant payment delays and payment shortfalls generally are not classified as impaired. Impaired loans are measured by the fair value of the collateral. The amount of impairment, if any, and any subsequent changes are included in the allowance for loan losses.

Allowance for Loan Losses

The allowance for loan losses is established through a provision for loan losses charged to expense. Loan losses are charged against the allowance when management believes the collectability of the principal is unlikely. Subsequent recoveries, if any, are credited to the allowance.

The allowance is an amount that management believes will be adequate to absorb estimated losses relating to specifically identified loans, as well as probable credit losses inherent in the balance of the loan portfolio, based on an evaluation of the collectability of existing loans and prior loss experience. This evaluation also takes into consideration such factors as changes in the nature and volume of the loan portfolio, overall portfolio quality, review of specific problem loans, concentrations and current economic conditions that may affect the borrower's ability to pay. This evaluation does not include the effects of expected losses on specific loans or groups of loans that are related to future events or expected changes in economic conditions. While management uses the best information available to make its evaluation, future adjustments to the allowance may be necessary if there are significant changes in economic conditions.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Allowance for Loan Losses (Continued)

The allowance consists of specific and general components. The specific components relate to loans that are impaired. For such loans that are classified as impaired, an allowance is established when the collateral value of the impaired loan is lower than the carrying value of that loan. The general component covers unimpaired loans and is based on historical experience adjusted for qualitative factors.

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 of \$5,335,337 and \$5,959,463 as of September 30, 2009 and 2008, respectively, as reported on the Statement of Financial Position, because payment on these mortgages is waived on a pro-rata basis over the term of the mortgage.

Foreclosed Assets

Foreclosed homes acquired through or in lieu of loan foreclosure are refurbished for future qualified residents and are initially recorded at the lower of cost or fair value. Any write-down to fair value at the time of transfer to foreclosed assets is charged to the allowance for loan losses. Subsequent to foreclosure, valuations are periodically performed by management and the assets are carried at the lower of carrying amount or fair value less cost to sell. Costs of improvements are capitalized, whereas costs relating to holding foreclosed homes and subsequent adjustments to the value are expensed.

Land and Construction Inventory

Land held for Home and Commercial Property Sites

Land purchased for homes and commercial property sites is recorded at cost unless it is determined to be impaired, in which case the impaired land is written down to fair value. 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. Habitat reviews land for impairment during each reporting period on a lot by lot basis. Generally accepted accounting standards requires that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

Construction in Progress Costs

Costs of construction in progress consist of a budgeted amount for the land transferred from land inventory to the construction account and direct home construction costs, unless it is determined to be impaired. In which case, the impaired construction in progress is written down to fair value. Construction overhead is expensed as incurred. Homes completed pending closing are classified as construction in progress until delivered. Habitat reviews construction in progress for impairment during each reporting period on a lot by lot basis. Generally accepted accounting standards requires that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

Habitat estimates fair values of land and construction inventory evaluated for impairment under generally accepted accounting standards based on market conditions and assumptions made by management at the time they are evaluated, which may differ materially from actual results if market conditions or assumptions change. For example, further market deterioration or changes in assumptions may lead to Habitat incurring additional impairment charges on previously impaired land and construction inventory, as well as on land and construction inventory in progress not currently impaired but for which indicators of impairment may arise if further deterioration occurs.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property and Equipment

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

Donated Property and Equipment

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

Revenue Recognition

It is Habitat's policy to sell affordable housing with interest free mortgages. 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.

Impairment Loss

For assets to be held and used, generally accepted accounting standards requires the recognition of an impairment loss whenever events or changes in circumstances have indicated that an asset may be impaired and the future cash flows from that asset are less than the asset's carry amount. The impairment loss is measured as the difference between the asset's carrying amount and its fair value.

During the year ended September 30, 2009, Habitat recorded impairment losses of \$4,381,867 was recognized in the Statement of Activities for the year ended September 30, 2009. Of the total impairment losses, \$1,658,766 and \$2,723,101 are related to land held for home sites and construction in progress, respectively.

Donated Material and Services

Donations of building materials (in-kind contributions) are recorded at their estimated fair value at the date of donation.

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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Donated Material and Services (Continued)

Donated materials and professional services in the amount of \$502,584 and \$366,016 were recognized as contributed material and services for the years ended September 30, 2009 and 2008, respectively.

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 benefitted.

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.

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.

Material estimates that are particularly susceptible to significant change in the near term related to the determination of the allowance for loan losses and the valuation of land and construction in progress.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2009 presentation in the financial statements. These reclassifications had no effect on the Organization's reported total assets, liabilities, net assets or decrease in net assets for the period involved.

Recent Accounting Pronouncements

The Financial Accounting Standards Board (FASB) issued an interpretation which clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. The interpretation prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. It also provides guidance on derecognition of tax benefits, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Recent Accounting Pronouncements (Continued)

In December 2008, the FASB provided for a deferral of the effective date of the interpretation for certain nonpublic enterprises to annual financial statements for fiscal years beginning after December 15, 2008. Habitat has elected this deferral and accordingly will be required to adopt the interpretation in its September 30, 2010 annual financial statements. Prior to adoption, Habitat will continue to evaluate its uncertain tax positions and related income tax contingencies as required by accounting principles generally accepted in the United States of America (GAAP).

Accounting principles generally accepted in the United States of America (GAAP) requires Habitat to accrue for losses it believes are probable and can be reasonably estimated. While management has not yet completed its analysis, it does not anticipate that the adoption of the interpretation will have a material impact on its financial position or results of operations.

In June 2009, the FASB issued a standard that requires more information about transfers of financial assets, including securitization transactions, and where companies have continuing exposure to the risks related to transferred financial assets. This standard also changes the requirements for derecognizing financial assets and requires additional disclosures. Habitat will be required to implement the standard in its September 30, 2010 annual financial statements.

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. As of September 30, 2009, Habitat held \$904,186 in escrow funds with a corresponding liability that is not included on the Statement of Financial Position.

NOTE 3. TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets are those whose use by the Organization has been limited by donors to a specified purpose. Temporarily restricted net assets consisted of a pledge receivable of \$788,523 and \$832,342 as of September 30, 2009 and 2008, respectively, and is restricted for subsequent debt payments.

During the years ended September 30, 2009 and 2008, \$43,819 and \$135,000, respectively, was released from temporarily restricted net assets to unrestricted net assets.

NOTE 4. PLEDGES RECEIVABLE

At September 30, 2009 and 2008, pledges receivable consisted of the following:

2009:	Temporarily Restricted
Receivable in less than one year	\$ 79,855
Receivable in one to five years	708,668
Total pledges receivable	\$ 788,523
2008:	Temporarily Restricted
Receivable in less than one year	\$ 43,819
Receivable in one to five years	788,523
Total pledges receivable	\$ 832,342

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 5. MORTGAGES RECEIVABLE

There were first mortgages receivable on 159 and 148 homes at September 30, 2009 and 2008, respectively.

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

	2009	2008
Balance, beginning of year	\$ 7,040,536	\$ 4,782,236
New mortgages	1,223,111	3,855,416
	8,263,647	8,637,652
Payments	(550,179)	(388,951)
Foreclosures and deeds in lieu	(1,010,631)	(445,022)
Sales of mortgages	(757,609)	(726,680)
Adjustments	-	(36,463)
Additions to allowance for doubtful accounts	(458,252)	-
	\$ 5,486,976	\$ 7,040,536

Maturities of first mortgage notes receivables are summarized as follows:

	2009	2008
Gross amounts due in:		
Less than one year	\$ 580,705	\$ 1,496
1 to 5 years	2,243,306	91,747
After 5 years	6,575,512	11,235,568
	9,399,523	11,328,811
Unamortized discount	(3,454,295)	(4,288,275)
Allowance for doubtful accounts	(458,252)	-
Net amounts due	\$ 5,486,976	\$ 7,040,536

The following is a summary of information pertaining to impaired and non-impaired loans:

	September 30	
	2009	2008
Gross non-impaired loans with a valuation allowance	\$ 6,965,377	\$ 11,328,811
Valuation allowance for non-impaired loans	(168,409)	-
Net gross non-impaired loans	\$ 6,796,968	11,328,811
Gross impaired loans with a valuation allowance	\$ 2,434,146	\$ -
Valuation allowance for impaired loans	(289,843)	-
Net gross impaired loans	\$ 2,144,303	\$ -
Second mortgages with a valuation allowance	\$ 5,330,337	\$ 5,959,463
Valuation allowance for second mortgages	(5,330,337)	(5,959,463)
Net second mortgages	\$ -	\$ -

During the year ended September 30, 2009, Habitat sold mortgages receivable with a book value of \$757,609 for \$916,502. During the year ended September 30, 2008, Habitat sold mortgages with a book value of \$726,680 for \$990,672.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 6. NOTE RECEIVABLE

Habitat has promissory notes due to it totaling \$196,956 and \$200,000 at September 30, 2009 and 2008, 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.

NOTE 7. HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2009, 26 homes were transferred to homeowners and 51 were under rehabilitation or completed at year-end. During the year ended September 30, 2008, 59 homes were transferred to homeowners and 52 were under construction or completed at year -end.

NOTE 8. PROPERTY AND EQUIPMENT

At September 30, 2009 and 2008, the carrying value of property and equipment and the related accumulated depreciation are as follows:

	2009	2008
Land	\$ 1,506,163	\$ 1,506,163
Buildings	7,312,540	7,244,119
Office fixtures and equipment	74,986	55,891
Computer equipment	73,185	116,875
Forklifts and other equipment	84,544	126,885
Vehicles	801,642	691,491
	9,853,060	9,741,424
Less accumulated depreciation	(1,372,676)	(1,173,105)
	\$ 8,480,384	\$ 8,568,319

NOTE 9. 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 \$18,128 and \$32,216 for the years ended September 30, 2009 and 2008, respectively.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2009, are:

Year ending September 30,	
2010	\$ 12,648
2011	12,203
2012	9,651
Total minimum future rental payments	\$ 34,502

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 10. LONG-TERM DEBT

	2009	2008
Line of credit payable to financial institution, annual payments of \$135,000, principal and interest at 7% APR, maturing June 2012; secured by real estate.	\$ 788,523	\$ 862,673
Line of credit payable to financial institution, interest monthly as Wall Street prime minus 1%, maturing December 2009; unsecured.	197,007	200,051
Loans payable to finance vehicle purchases, payable to a finance company at 0% interest and monthly payments of \$4,233 with final payments due May 2014.	107,377	57,387
Note payable to finance equipment purchases, payable to a finance company at 0% interest and monthly payments of \$647 with final payments due April 2012.	19,420	-
	\$ 1,112,327	\$ 1,120,111

Principal maturities of long-term debt at September 30, 2009 are as follows:

Year ending September 30,		
2010	\$	331,208
2011		123,565
2012		112,878
2013		539,523
2014		5,153
	\$	1,112,327

NOTE 11. FAIR VALUE MEASUREMENTS

Generally accepted accounting principles (GAAP), establishes a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy under GAAP are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Habitat has the ability to access.

Level 2 – Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially all of the full term of the asset or liability.

Level 3 – Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. FAIR VALUE MEASUREMENTS (Continued)

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Assets Measured at Fair Value on a Recurring Basis

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at September 30, 2009.

Mutual funds: Valued at the net asset value (NAV) of shares held by Habitat at year end.

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although Habitat believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

The following table sets forth by level, within the fair value hierarchy, Habitat's assets at fair value as of September 30, 2009:

	Level 1	Level 2	Level 3	Total
Mutual funds	\$ 243,773	\$ -	\$ -	\$ 243,773
Total assets at fair value	<u>\$ 243,773</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 243,773</u>

Assets Measured at Fair Value on a Nonrecurring Basis

Following is a description of the valuation methodologies used for instruments measured at fair value on a non-recurring basis and recognized in the accompanying balance sheet, as well as the general classification of such instruments pursuant to the valuation hierarchy.

Impaired loans: Loan impairment is reported when full payment under the loan terms is not expected. Impaired loans are carried at the fair value of collateral. A portion of the allowance for loan losses is allocated to impaired loans if the value of such loans is deemed to be less than the unpaid balance. If these allocations cause the allowance for loan losses to require increase, such increase is reported as a component of the provision for loan losses. Loan losses are charged against the allowance when management believes the uncollectibility of a loan is confirmed. When the fair value of the collateral is based on an observable market price or a current appraised value, the Organization records the loan impairment as nonrecurring Level 2.

Impaired land held for home sites: Land held for home sites impairment are reported when the current tax appraised values are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such assets to its fair value. When the fair values of such assets are based on current tax appraised values, the Organization records the land held for homes sites as nonrecurring Level 2.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 11. FAIR VALUE MEASUREMENTS

Assets Measured at Fair Value on a Nonrecurring Basis (Continued)

Impaired construction in progress: Construction in progress impairment are reported when the current real estate appraised values on similar properties are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such assets to its fair value. When the fair values of such assets are based on current real estate appraised values of similar properties, the Organization records the construction in progress impairment as nonrecurring Level 3.

The following table presents the assets carried on the Statement of Financial Position by caption and by level within the GAAP valuation hierarchy (as described above) as of September 30, 2009, for which nonrecurring change in fair value has been recorded during the year ended September 30, 2009.

	Carrying Value at September 30, 2009			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ 2,434,146	\$ -	\$ 2,434,146
Impaired land held for home sites	-	1,544,232	-	1,544,232
Impaired construction in progress	-	-	2,269,320	2,269,320
Total	<u>\$ -</u>	<u>\$ 3,978,378</u>	<u>\$ 2,269,320</u>	<u>\$ 6,247,698</u>

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of Habitat's level 3 non-recurring impaired construction in progress assets for the year ended September 30, 2009:

Balance, beginning of the year	\$ 5,145,234
New construction , sales of completed homes (net)	(152,813)
Impairment loss	<u>(2,723,101)</u>
Balance, end of the year	<u>\$ 2,269,320</u>

NOTE 12. 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 \$18,442,908 as of September 30, 2009 and \$18,997,645 as of September 30, 2008 that it sold to outside investors. These mortgages are not owned by Habitat and, therefore, are not reflected in the consolidated financial statements.

NOTE 13. 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 \$154,479 and \$148,484 for the years ended September 30, 2009 and 2008, respectively. This amount is included in program services expense in the statement of functional expenses.

NOTE 14. LEE COUNTY AND CITY OF CAPE CORAL CONTRACTS

During the year ending September 30, 2009, Habitat entered into various contracts with Lee County and the City of Cape Coral totaling \$1,000,000 to construct or rehabilitate 25 single-family homes. 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. These contracts were funded through the Florida State Housing Initiative Partnership Program.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 15. 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, 2009 and 2008, Habitat's uninsured cash balances totaled approximately \$2,204,945 and \$3,500,000, respectively.

NOTE 16. 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 5 are subject to this replacement requirement. As of September 30, 2009, Habitat has accrued for \$41,748 in potential loss on impairment for loans that are currently being serviced by Habitat.

NOTE 17. RELATED PARTY TRANSACTIONS

The Organization sold mortgages with a balance of \$829,043 and \$351,261 during the years ended September 30, 2009 and 2008, respectively, to entities related and/or controlled by a board member. The Organization continues to service these mortgages.

The Organization paid \$112,270 and \$62,770 to a law firm that has a board member as a stockholder in the years ended September 30, 2009 and 2008, respectively.

The Organization paid \$1,419 to an accounting firm that has a board member as a stockholder in the year ended September 30, 2009.

The Organization maintains its operating account and money market account in a commercial bank that a board member is president of. The Organization also has an unsecured note with the same commercial bank. The outstanding balance of the unsecured note was \$197,007 at September 30, 2009.

The Organization has a promissory note due to it totaling \$196,956 at September 30, 2009, from an entity related and/or controlled by a board member. See Note 6 for promissory note terms.

NOTE 18. 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 have three months of service. The plan allows for employee contributions which Habitat may match up to a maximum of 4% of eligible compensation.

NOTE 19. 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 20. SUBSEQUENT EVENTS

Generally accepted accounting principles, requires disclosure of events that occur after fiscal year-end but before financial statement issuance. Management has evaluated events occurring through January 18, 2010, and no additional disclosures are necessary.

SUPPLEMENTARY INFORMATION



**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS 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, 2009, and have issued our report thereon dated January 18, 2010. 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 the effectiveness of 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

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 Habitat's internal control. We consider the deficiencies described in the accompanying schedule of findings and questioned costs as items 2009-1 and 2009-2 to be significant deficiencies in internal control over financial reporting.

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 entity'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. However, of the reportable conditions described above, we consider item 2009-1 to be a material weakness.

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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
January 18, 2010

**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, 2009. Habitat's major state programs and projects are identified in the summary of auditor's 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 691-5, Rules of the Florida Department of Financial Services, Florida Administrative Code. Those standards, Chapter 691-5, 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 programs and projects for the year ended September 30, 2009.

Internal Control Over Compliance

The management of Habitat is responsible for establishing and maintaining effective internal control over compliance with the 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 Habitat's internal control over compliance.

A *control deficiency* in an organization'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 program 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 program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a state program 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 program will not be prevented or detected by any 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
January 18, 2010

**HABITAT FOR HUMANITY OF LEE COUNTY, INC.
SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
SEPTEMBER 30, 2009**

<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	C3935	\$ 343,446
Lee County Contract	52.901	C4242	120,000
Lee County Contract	52.901	C4733	80,000
Cape Coral Contract 2006-2007	**	**	134,083
Cape Coral Contract 2007-2008	**	**	<u>48,375</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 725,904</u>

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, 2009

(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 691-5, 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 691-5, Rules of the Florida Department of Financial Services, Florida Administrative Code, state financial assistance is defined as assistance from state resources, not including state financial 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 691-5, 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 691-5 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, 2009.

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
YEAR ENDED SEPTEMBER 30, 2009**

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness? Yes None reported
- Noncompliance material to financial statements noted? Yes No

State Financial Assistance

Internal control over major state projects:

- Material weakness(as) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness? Yes 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 No

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 and Type B project was: Major State Project	<u>\$300,000</u>

Auditee qualified as low-risk auditee? Yes No

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2009

Section II - Financial Statement Findings

Identifying Number:	2009-1
Criteria:	The Organization should evaluate individual parcels of land for impairment and should not increase the book value of land when fair value exceeds book value.
Condition:	The Organization increased the book value of individual parcels of land when the fair value exceeded book value.
Effect:	An adjustment has been recorded to decrease the land held as inventory balance by \$1,204,580 and to increase the land impairment expense.
Cause:	Management netted increases in fair value of land over book value with impairment losses resulting from fair value being less than book value.
Recommendation:	We recommend that management only adjust the book value of land when an impairment loss has occurred.
Corrective Action:	No corrective action plan is required because there were no findings required to be reported under the Florida Single Audit Act.
Identifying Number:	2009-2
Criteria:	Contributions receivable should be measured at fair value.
Condition:	The Organization has reduced the pledge receivable balance by pledge payments not previously recorded as receivable because they were considered conditional.
Effect:	The effect of the misstatement is that the pledge receivable balance was understated by \$91,181.
Cause:	Management reduced the pledge receivable balance by pledge payments received for unrecorded conditional pledges.
Recommendation:	We recommend that management only reduce the pledge receivable balance by payments for previously recorded unconditional pledges.
Corrective Action:	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, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2009

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.

HABITAT FOR HUMANITY OF LEE COUNTY, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2008

Identifying Number: 2008-1

Audit Finding: 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 Standards No. 112, material adjustments such as the one described here constitute 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.

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

Identifying Number: 2008-2

Audit Finding: 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.

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