

DRAFT

**HABITAT FOR HUMANITY OF
LEE AND HENDRY COUNTIES, INC.**

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2011

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED FINANCIAL REPORT
SEPTEMBER 30, 2011

DRAFT

TABLE OF CONTENTS

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT.....	1
CONSOLIDATED FINANCIAL STATEMENTS	
Consolidated statements of financial position	2
Consolidated statements of activities and changes in net assets.....	3 and 4
Consolidated statements of functional expenses.....	5 and 6
Consolidated statements of cash flows	7 and 8
Notes to consolidated financial statements	9-22
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 <i>Government Auditing Standards</i>	23 and 24
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.....	25 and 26
Independent Auditor's Report on Compliance with Requirements that Could Have a Direct and Material Effect on Each Major Program and on Internal Control Over Compliance in Accordance with Chapter 10.650, Rules of the Auditor General	27 and 28
Schedule of Expenditures of Federal Awards	29
Note to Schedule of Expenditures of Federal Awards	30
Schedule of Expenditures of State Financial Assistance.....	31
Notes to Schedule of Expenditures of State Financial Assistance.....	32
Schedule of Findings and Questioned Costs	33-35
Summary Schedule of Prior Audit Findings	36 and 37

DRAFT

INDEPENDENT AUDITOR'S REPORT

Board of Directors

Habitat for Humanity of Lee and Hendry Counties, Inc.
North Fort Myers, Florida

We have audited the accompanying consolidated statements of financial position of **Habitat for Humanity of Lee and Hendry Counties, Inc.** ("Habitat") as of September 30, 2011 and 2010, and the related consolidated 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 these 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 above present fairly, in all material respects, the financial position of Habitat for Humanity of Lee and Hendry Counties, Inc. as of September 30, 2011 and 2010, and the changes in its net assets and its cash flows for the years 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 ~~November XX~~, 2011 on our consideration of Habitat for Humanity of Lee and Hendry Counties, 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 audits were conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying Schedule of Expenditures of Federal Awards is presented for purposes of additional analysis as required by U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements 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 consolidated 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.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

DRAFT

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2011 AND 2010

<u>Assets</u>	<u>2011</u>	<u>2010</u>
Cash and cash equivalents		
Operating	\$ 2,180,922	\$ 3,075,083
Escrow	20,501	23,438
Pledges and accounts receivable	869,552	909,235
Notes receivable	-	242,600
Investments for gift annuity obligations	225,216	231,050
Prepaid expenses and deposits	50,100	4,123
Building materials inventory	122,246	133,409
First and second mortgages receivable, net of an allowance for doubtful accounts of \$4,396,602 and \$4,897,605 for 2011 and 2010, respectively	6,232,387	5,385,579
Land held for home sites	1,690,595	1,518,945
Commercial property held	-	34,350
Construction in progress	1,654,325	2,387,496
Property and equipment, net	7,339,152	8,057,125
	<hr/>	<hr/>
Total assets	\$ 20,384,996	\$ 22,002,433
	<hr/> <hr/>	<hr/> <hr/>
<u>Liabilities and Net Assets</u>		
Liabilities:		
Accounts payable and other accrued liabilities	\$ 399,384	\$ 228,106
Accrued Chinese drywall remediation costs (see Note 11)	264,054	656,588
Escrow accounts payable	51,979	20,970
Annuity obligations payable	147,058	110,911
Long-term debt	660,357	999,290
Total liabilities	<hr/> 1,522,832	<hr/> 2,015,865
Net assets:		
Unrestricted	18,227,485	19,277,139
Temporarily restricted	634,679	709,429
	<hr/>	<hr/>
Total net assets	18,862,164	19,986,568
	<hr/>	<hr/>
Total liabilities and net assets	\$ 20,384,996	\$ 22,002,433
	<hr/> <hr/>	<hr/> <hr/>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2011

DRAFT

	Unrestricted	Temporarily Restricted	Total
Changes in unrestricted net assets			
Revenue and support:			
Contributions			
Cash and pledge contributions	\$ 830,285	\$ 10,414	\$ 840,699
Materials and services	1,144,555	-	1,144,555
Land donations	72,906	-	72,906
Grants and subsidies	2,446,634	-	2,446,634
Application fees	83,091	-	83,091
Retail store sales	563,175	-	563,175
Special events (less direct expenses of \$98,629)	266,628	-	266,628
Amortization of mortgage discounts	213,643	-	213,643
Interest income	8,238	-	8,238
Rental income	343,110	-	343,110
Gift annuity loss	(11,640)	-	(11,640)
Miscellaneous revenue	32,563	-	32,563
Loss on disposal of fixed assets	(229,690)	-	(229,690)
Net assets released from restriction	85,164	(85,164)	-
	5,848,662	(74,750)	5,773,912
Transfers to homeowners for mortgage loans	2,906,709	-	2,906,709
Total revenue and support	8,755,371	(74,750)	8,680,621
Expenses			
Program services			
Construction	6,949,532	-	6,949,532
Retail stores	488,278	-	488,278
Family outreach	533,965	-	533,965
Senior housing	381,252	-	381,252
Total program service expenses	8,353,027	-	8,353,027
Administrative and general	499,226	-	499,226
Fundraising	187,384	-	187,384
Total administrative and general and fundraising expenses	686,610	-	686,610
Impairment loss	88,391	-	88,391
Chinese drywall remediation costs	176,885	-	176,885
Loan loss expense	481,555	-	481,555
Change in value of charitable annuities split-interest agreements	18,557	-	18,557
	(1,049,654)	(74,750)	(1,124,404)
Changes in net assets			
Net assets - beginning of year	19,277,139	709,429	19,986,568
Net assets - end of year	\$ 18,227,485	\$ 634,679	\$ 18,862,164

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS YEAR ENDED SEPTEMBER 30, 2010

DRAFT

	Unrestricted	Temporarily Restricted	Total
Changes in unrestricted net assets			
Revenue and support:			
Contributions			
Cash and pledge contributions	\$ 1,577,285	\$ -	\$ 1,577,285
Materials and services	841,117	-	841,117
Land donations	8,000	-	8,000
Grants and subsidies	979,662	-	979,662
Application fees	93,071	-	93,071
Retail store sales	539,950	-	539,950
Special events (less direct expenses of \$110,188)	244,621	-	244,621
Amortization of mortgage discounts	191,390	-	191,390
Interest income	10,878	-	10,878
Rental income	331,178	-	331,178
Gift annuity income	157,620	-	157,620
Miscellaneous revenue	117,270	-	117,270
Gain on disposal of fixed assets	15,901	-	15,901
Net assets released from restriction	79,094	(79,094)	-
	5,187,037	(79,094)	5,107,943
Transfers to homeowners for mortgage loans	1,510,809	-	1,510,809
Total revenue and support	6,697,846	(79,094)	6,618,752
Expenses			
Program services			
Construction	4,904,334	-	4,904,334
Retail stores	349,429	-	349,429
Family outreach	449,076	-	449,076
Senior housing	277,294	-	277,294
Total program service expenses	5,980,133	-	5,980,133
Administrative and general	816,204	-	816,204
Fundraising	170,807	-	170,807
Total administrative and general and fundraising expenses	987,011	-	987,011
Impairment loss	711,919	-	711,919
Chinese drywall remediation costs	656,588	-	656,588
Loan loss expense	142,950	-	142,950
Change in value of charitable annuities split-interest agreements	12,724	-	12,724
	(1,136,891)	(79,094)	(1,215,985)
Changes in net assets			
Net assets - beginning of year	20,414,030	788,523	21,202,553
Net assets - end of year	\$ 19,277,139	\$ 709,429	\$ 19,986,568

See Notes to Consolidated Financial Statements.

DRAFT

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2011**

	Program Services				Total Program Services	Administrative and General	Fundraising	Total
	Construction	Retail Stores	Family Outreach	Senior Housing				
Construction costs	\$ 6,934,557	\$ -	\$ -	\$ -	\$ 6,934,557	\$ -	\$ -	\$ 6,934,557
Direct program expenses								
Volunteer department	158,105	-	-	-	158,105	-	-	158,105
Program indirect expenses								
Communication	44,594	44,594	44,594	44,594	178,376	-	-	178,376
Development	-	-	-	-	-	-	187,384	187,384
Cost of retail store sales	-	396,365	-	-	396,365	-	-	396,365
Family outreach service costs	-	-	263,064	-	263,064	-	-	263,064
Mortgage expenses	-	-	694,302	-	694,302	-	-	694,302
Senior housing costs	-	-	-	230,427	230,427	-	-	230,427
Administrative indirect expenses								
Office and other salaries	-	-	-	-	-	222,715	-	222,715
Insurance	-	-	-	-	-	27,983	-	27,983
Mortgage interest	-	-	-	-	-	33,609	-	33,609
Office operations	-	-	-	-	-	41,982	-	41,982
Maintenance	-	-	-	-	-	21,130	-	21,130
Real estate taxes and fees	-	-	-	-	-	55,067	-	55,067
Utilities	-	-	-	-	-	25,739	-	25,739
Miscellaneous	-	-	-	-	-	6,106	-	6,106
Total functional expenses before depreciation	7,137,256	440,959	1,001,960	275,021	8,855,196	434,331	187,384	9,476,911
Depreciation	77,552	47,319	13,560	106,231	244,662	64,895	-	309,557
Total functional expenses	\$ 7,214,808	\$ 488,278	\$ 1,015,520	\$ 381,252	\$ 9,099,858	\$ 499,226	\$ 187,384	\$ 9,786,468

See Notes to Consolidated Financial Statements.

DRAFT

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2010**

	Program Services				Total Program Services	Administrative and General	Fundraising	Total
	Construction	Retail Stores	Family Outreach	Senior Housing				
Construction costs	\$ 5,389,987	\$ -	\$ -	\$ -	\$ 5,389,987	\$ -	\$ -	\$ 5,389,987
Direct program expenses								
Volunteer department	139,673	-	-	-	139,673	-	-	139,673
Title to HFHI	53,585	-	-	-	53,585	-	-	53,585
Program indirect expenses								
Development and communication	14,684	14,684	14,684	14,684	58,736	-	170,807	229,543
Cost of retail store sales	-	308,326	-	-	308,326	-	-	308,326
Family outreach service costs	-	-	434,392	-	434,392	-	-	434,392
Senior housing costs	-	-	-	149,154	149,154	-	-	149,154
Administrative indirect expenses								
Office and other salaries	-	-	-	-	-	393,195	-	393,195
Insurance	-	-	-	-	-	20,875	-	20,875
Mortgage interest	-	-	-	-	-	56,454	-	56,454
Office operations	-	-	-	-	-	148,705	-	148,705
Maintenance	-	-	-	-	-	54,362	-	54,362
Real estate taxes and fees	-	-	-	-	-	34,277	-	34,277
Utilities	-	-	-	-	-	35,696	-	35,696
Miscellaneous	-	-	-	-	-	16,100	-	16,100
Total functional expenses before depreciation	5,597,929	323,010	449,076	163,838	6,533,853	759,664	170,807	7,464,324
Depreciation	161,274	26,419	-	113,456	301,149	56,540	-	357,689
Total functional expenses	\$ 5,759,203	\$ 349,429	\$ 449,076	\$ 277,294	\$ 6,835,002	\$ 816,204	\$ 170,807	\$ 7,822,013

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2011 AND 2010

DRAFT

	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contracts and donations	\$ 9,353,263	\$ 6,074,711
Cash payments for program and support services	(11,642,812)	(6,341,355)
Cash received for interest	8,238	10,878
Cash payments for interest	(31,327)	(56,106)
	(2,312,638)	(311,872)
Net cash (used in) operating activities		
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(98,524)	(23,748)
Proceeds from the sale of property	311,600	99,293
Notes receivable (issued) payments received, net	242,600	(45,644)
Proceeds from the sale of mortgages	772,675	-
Mortgage payments received	555,269	546,829
	1,783,620	576,730
Net cash from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES:		
Annuity payments	(26,210)	(39,081)
Proceeds from notes payable	635,165	434,250
Principal payments on notes and mortgages payable	(974,098)	(547,287)
	(365,143)	(152,118)
Net cash (used in) financing activities		
(Decrease) increase in cash and cash equivalents	(894,161)	112,740
Cash and cash equivalents, beginning of year	3,075,083	2,962,343
Cash and cash equivalents, end of year	\$ 2,180,922	\$ 3,075,083

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2011 AND 2010

DRAFT

	2011	2010
Changes in net assets	\$ (1,124,404)	\$ (1,215,985)
Adjustments to reconcile changes in net assets to net cash (used in) operating activities		
Depreciation	309,557	357,689
Impairment loss	88,391	711,919
Loan loss expense	481,555	142,950
(Gain) loss on sale of mortgages receivable	(342,362)	19,910
Issuance of first and second mortgages receivable less discount	(2,565,111)	(1,600,280)
Loss on foreclosure	251,166	991,988
Loss (gain) loss on disposal of property and equipment	229,690	(9,975)
Donated land held for home sites	(72,906)	(8,000)
Donated materials and services	(315,146)	(131,298)
(Increase) decrease in assets		
Pledges and accounts receivable	73,629	(55,433)
Charitable annuity split-interest agreements	32,044	51,804
Prepaid expenses and deposits	(45,977)	(2,364)
Building materials inventory	326,309	199,519
Land held for home sites	(98,744)	2,325
Commercial property held	-	16,900
Construction in progress	644,780	(293,865)
Increase (decrease) in liabilities		
Accounts payable, other accrued liabilities, imputed interest	171,278	11,356
Accrued Chinese drywall remediation costs	(392,534)	656,588
Annuity obligations payable	36,147	(157,620)
	<u>\$ (2,312,638)</u>	<u>\$ (311,872)</u>
Net cash (used in) operating activities	<u>\$ (2,312,638)</u>	<u>\$ (311,872)</u>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

DRAFT

Organization

Habitat for Humanity of Lee and Hendry Counties, Inc. ("Habitat") is a non-profit organization funded by public contributions. The organization was incorporated on October 8, 1982, and is dedicated to providing low income home ownership 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.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES
(Continued)

DRAFT

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 consolidated statements of activities and changes in net assets.

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 2% and 3% was used to determine the present value of all split-interest agreements at September 30, 2011 and 2010, respectively.

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. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

DRAFT

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.

Second mortgages are held on most homes sold. 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 \$3,896,602 and \$4,397,605 as of September 30, 2011 and 2010, respectively, as reported on the consolidated Statements of Financial Position, because payment on these mortgages is waived over the term of the mortgage. Second mortgages issued prior to January 2006 decrease on a pro-rata basis over the term of the mortgage. Second mortgages issued after January 2006 remain at the full balance until the end of the mortgage term.

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 principles require 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 principles require 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

DRAFT

Significant Accounting Policies (Continued)

Land and Construction Inventory (Continued)

Habitat estimates fair values of land and construction inventory evaluated for impairment under generally accepted accounting principles 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.

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 principles require 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 carrying amount. The impairment loss is measured as the difference between the asset's carrying amount and its fair value.

During the years ended September 30, 2011 and 2010, Habitat recorded impairment losses of \$88,391 and \$711,919, respectively, which was recognized in the consolidated Statements of Activities and Changes in Net Assets. Of the total impairment losses for the year ended September 30, 2011, all of it is related to land held for home sites. Of the total impairment losses for the year ended September 30, 2010, \$125,194 and \$586,725 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

DRAFT

Significant Accounting Policies (Continued)

Donated Material and Services (Continued)

Donated materials and professional services in the amount of \$1,144,555 and \$841,117 were recognized as contributed material and services for the years ended September 30, 2011 and 2010, respectively.

However, a large number of volunteers have donated significant amounts of their time to the Organization's program services that has not been recognized in the consolidated statement of activities.

Program Services

Program services include construction, family outreach, senior housing, and providing affordable home furnishings in the retail stores. The cost of home building or rehabilitation 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 statements 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 Code Section 501(c)(3). Accordingly, no provision for income taxes has been made in these financial statements.

The Organization adopted the provisions of FASB's *Accounting for Uncertainty in Income Taxes*, on October 1, 2009. As a result of the implementation of this guidance, the Organization did not recognize any additions or reductions associated with uncertain tax positions and implementation did not have a material impact on its financial position or results of operations for the year ended September 30, 2011.

Use of Estimates

The preparation of consolidated financial statements, in conformity with accounting principles generally accepted 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, the valuation of land and construction in progress and the determination of accrued construction rehab costs.

Reclassifications

Certain prior year amounts have been reclassified to conform to the 2011 presentation in the consolidated 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.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES (Continued)

Significant Accounting Policies (Continued)

DRAFT

Recent Accounting Pronouncements

In June 2009, the FASB issued *Generally Accepted Accounting Principles*, which establishes the FASB ASC as the sole source of authoritative generally accepted accounting principles. The codification is not intended to change generally accepted accounting principles (GAAP) but rather is expected to simplify accounting research by reorganizing current GAAP into topics. Pursuant to the provisions of this guidance, the Organization has updated references to GAAP in its financial statements issued for the year ended September 30, 2011 and 2010. The adoption of this statement did not impact the Organization's financial position or results of operations.

NOTE 2. ESCROW CASH

Funds received from homebuyers prior to closing are held in escrow and restricted to closing costs on 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, 2011 and 2010, Habitat held \$819,010, and \$745,671, respectively, in tax and insurance escrow funds with a corresponding liability that is not included on the consolidated 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 \$634,379 and \$709,429 as of September 30, 2011 and 2010, respectively, and is restricted for subsequent debt payments.

During the years ended September 30, 2011 and 2010, \$85,164 and \$79,094, respectively, was released from temporarily restricted net assets to unrestricted net assets.

NOTE 4. PLEDGES RECEIVABLE

At September 30, 2011 and 2010, pledges receivable consisted of the following:

2011:	<u>Temporarily Restricted</u>
Receivable in less than one year	\$ 91,427
Receivable in one to five years	542,952
Total pledges receivable	<u>\$ 634,379</u>
2010:	<u>Temporarily Restricted</u>
Receivable in less than one year	\$ 85,445
Receivable in one to five years	623,984
Total pledges receivable	<u>\$ 709,429</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

DRAFT

NOTE 5. MORTGAGES RECEIVABLE

There were first mortgages receivable on 184 and 163 homes at September 30, 2011 and 2010, respectively.

The following is a summary of mortgages receivable, presented net of the imputed interest amounts:

	<u>2011</u>	<u>2010</u>
Balance, beginning of year	\$ 5,385,579	\$ 5,486,976
New mortgages	<u>2,565,111</u>	<u>1,600,280</u>
	7,950,690	7,087,256
Payments	(555,269)	(546,829)
Foreclosures and deeds in lieu	(1,533,000)	(1,113,100)
Sales of mortgages	369,966	-
Additions to allowance for doubtful accounts	-	(41,748)
	<u>\$ 6,232,387</u>	<u>\$ 5,385,579</u>

Maturities of first mortgage notes receivable are summarized as follows:

	<u>2011</u>	<u>2010</u>
Gross amounts due in:		
Less than one year	\$ 626,735	\$ 592,868
1 to 5 years	2,414,326	2,252,242
After 5 years	<u>6,288,576</u>	<u>5,987,777</u>
	9,329,637	8,832,887
Unamortized discount	(2,597,250)	(2,947,308)
Allowance for doubtful accounts	<u>(500,000)</u>	<u>(500,000)</u>
Net amounts due	<u>\$ 6,232,387</u>	<u>\$ 5,385,579</u>

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

	<u>2011</u>	<u>2010</u>
Gross non-impaired loans with a valuation allowance	\$ 7,918,729	\$ 6,671,948
Valuation allowance for non-impaired loans	<u>(337,997)</u>	<u>(225,664)</u>
Net gross non-impaired loans	<u>\$ 7,580,732</u>	<u>6,446,284</u>
Gross impaired loans with a valuation allowance	\$ 1,910,908	\$ 2,160,939
Valuation allowance for impaired loans	<u>(162,003)</u>	<u>(274,336)</u>
Net gross impaired loans	<u>\$ 1,748,905</u>	<u>\$ 1,886,603</u>
Second mortgages with a valuation allowance	\$ 3,896,602	\$ 4,397,605
Valuation allowance for second mortgages	<u>(3,896,602)</u>	<u>(4,397,605)</u>
Net second mortgages	<u>\$ -</u>	<u>\$ -</u>

During the year ended September 30, 2011, Habitat sold mortgages receivable with a book value of \$773,749 for \$1,011,825. During the year ended September 30, 2010, Habitat did not sell any mortgages receivable.

NOTE 6. NOTES RECEIVABLE

Habitat had promissory notes receivable totaling \$242,600 at September 30, 2010. The notes were with various companies participating in a matching grant program. The notes matured during 2011 and are non-interest bearing. The notes were payable in one lump sum payment. There are no promissory notes receivable at September 30, 2011.

NOTE 7. HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2011, 70 homes were transferred to homeowners and 37 were under rehabilitation or completed at year-end. During the year ended September 30, 2010, 38 homes were transferred to homeowners and 45 were under construction or completed at year-end.

NOTE 8. PROPERTY AND EQUIPMENT

At September 30, 2011 and 2010, the carrying value of property and equipment and the related accumulated depreciation are as follows:

	2011	2010
Land	\$ 1,323,163	\$ 1,506,163
Buildings and building improvements	7,031,768	7,327,129
Office fixtures and equipment	76,039	73,893
Computer equipment	80,466	80,466
Forklifts and other equipment	70,105	84,544
Vehicles	548,429	615,005
	<u>9,129,972</u>	<u>9,687,200</u>
Less accumulated depreciation	<u>(1,790,818)</u>	<u>(1,630,075)</u>
	<u>\$ 7,339,152</u>	<u>\$ 8,057,125</u>

NOTE 9. LEASE OBLIGATIONS

Operating Leases

Habitat leases office equipment under non-cancelable operating leases with varying terms through September 2015. Rent expense under these leases was \$21,552 and \$12,648 for the years ended September 30, 2011 and 2010, respectively.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2011, are:

Year ending September 30,	
2012	\$ 19,000
2013	9,349
2014	9,349
2015	9,349
Total minimum future rental payments	<u>\$ 47,047</u>

Habitat also entered into an agreement during the year ended September 30, 2010 with a leasing company in which the leasing company would provide the total rental payments due on the old copier by entering into an agreement for the new copier. The total value of the rental payments to be received from the leasing company is \$23,905. These proceeds were received during 2011.

NOTE 10. LONG-TERM DEBT

	2011	2010
Unsecured note payable to financial institution, annual payments of \$135,000, principal and interest at 5%, maturing December 2016.	\$ 634,679	\$ -
Secured note payable to financial institution, annual payments of \$135,000, principal and interest at 7% APR, paid in full during 2011; secured by real estate.	-	709,429
Available line of credit of \$1,500,000 payable to financial institution, interest monthly at 3.25%, maturing March 2012; unsecured.	-	242,600
Loans payable to finance vehicle purchases, payable to a finance company at 0% interest and monthly payments of \$1,204 with final payments due May 2014.	21,167	35,610
Note payable to finance equipment purchases, payable to a finance company at 0% interest and monthly payments of \$647 with final payment due April 2012.	4,511	11,651
	\$ 660,357	\$ 999,290

Principal maturities of long-term debt at September 30, 2011 are as follows:

Year ending September 30,	
2012	\$ 147,798
2013	142,727
2014	140,152
2015	135,000
2016	94,680
	\$ 660,357

NOTE 11. ACCRUED CHINESE DRYWALL REMEDIATION COSTS

During the year ended September 30, 2010, the Organization discovered the presence of Chinese drywall in 28 homes that were constructed in the years 2006 to 2009. The Organization voluntarily elected to remediate all of the 28 homes, which started in November 2010. At September 30, 2011, the Organization has 8 homes that still need remediation work. The Organization has estimated costs associated with the remediation of the homes and the costs to temporarily relocate the homeowners to be \$264,054 and \$656,588 at September 30, 2011 and 2010, respectively. The Organization has accrued these costs in the consolidated statements of financial position at September 30, 2011 and 2010. The Organization has expensed \$176,885 and \$656,588 of these costs on the consolidated statements of activities at September 30, 2011 and 2010, respectively.

NOTE 12. 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).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**NOTE 12. FAIR VALUE MEASUREMENTS (Continued)**

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 Organization 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.

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, 2011.

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, 2011:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 19,116	\$ -	\$ -	\$ 19,116
Mutual funds:				
U.S. equities	94,716	-	-	94,716
International equities	29,233	-	-	29,233
Fixed income funds	82,151	-	-	82,151
Total mutual funds	206,100	-	-	206,100
Total assets at fair value	\$ 225,216	\$ -	\$ -	\$ 225,216

DRAFT**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS****NOTE 12. FAIR VALUE MEASUREMENTS (Continued)**

The following table sets forth by level, within the fair value hierarchy, Habitat's assets at fair value as of September 30, 2010:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 29,838	\$ -	\$ -	\$ 29,838
Mutual funds:				
U.S. equities	84,002	-	-	84,002
International equities	23,283	-	-	23,283
Fixed income funds	93,927	-	-	93,927
Total mutual funds	<u>201,212</u>	<u>-</u>	<u>-</u>	<u>201,212</u>
Total assets at fair value	<u>\$ 231,050</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 231,050</u>

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.

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.

Assets Measured at Fair Value on a Nonrecurring Basis

The following table presents the assets carried on the consolidated Statements of Financial Position by caption and by level within the GAAP valuation hierarchy (as described above) as of September 30, 2011, for which nonrecurring change in fair value has been recorded during the year ended September 30, 2011.

	Carrying Value at September 30, 2011			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ 1,910,908	\$ -	\$ 1,910,908
Impaired land held for home sites	-	1,690,595	-	1,690,595
Total	<u>\$ -</u>	<u>\$ 3,601,503</u>	<u>\$ -</u>	<u>\$ 3,601,503</u>

DRAFT

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 12. FAIR VALUE MEASUREMENTS (Continued)

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, 2011:

Balance, beginning of the year	\$ 1,909,903
New construction , sales of completed homes (net)	(1,909,903)
Balance, end of the year	\$ -

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

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, 2010, for which nonrecurring change in fair value has been recorded during the year ended September 30, 2010.

	Carrying Value at September 30, 2010			
	Level 1	Level 2	Level 3	Total
Impaired loans	\$ -	\$ 2,160,939	\$ -	\$ 2,160,939
Impaired land held for home sites	-	1,426,068	-	1,426,068
Impaired construction in progress	-	-	1,909,903	1,909,903
Total	\$ -	\$ 3,587,007	\$ 1,909,903	\$ 5,496,910

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, 2010:

Balance, beginning of the year	\$ 2,269,320
New construction , sales of completed homes (net)	227,308
Impairment loss	(586,725)
Balance, end of the year	\$ 1,909,903

NOTE 13. 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 \$17,307,099 as of September 30, 2011 and \$17,263,690 as of September 30, 2010 that it sold to outside investors. These mortgages are not owned by Habitat and, therefore, are not reflected in the consolidated financial statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14. TITHE TO HABITAT INTERNATIONAL

Habitat annually remits a portion of its revenues to Habitat International. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$53,585 for the year ended September 30, 2010. This amount is included in program services expense in the consolidated statement of functional expenses. Habitat International has agreed to relieve Habitat of its required payments for the year ending September 30, 2011 in order to offset a portion of the Chinese drywall remediation costs that Habitat will incur.

NOTE 15. LEE COUNTY AND CITY OF CAPE CORAL CONTRACTS

During the year ending September 30, 2011, Habitat entered into various contracts with Lee County and the City of Cape Coral to construct or rehabilitate 73 single-family homes. During the year ending September 30, 2010, Habitat entered into various contracts with Lee County and the City of Cape Coral to construct or rehabilitate 21 single-family homes. These contracts were funded through the Florida State Housing Initiative Partnership Program.

NOTE 16. CONCENTRATION OF CREDIT RISK

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, 2011 and 2010, Habitat's uninsured cash balances totaled \$754,821 and \$2,073,413, respectively.

NOTE 17. 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 summarized in Note 5 are subject to this replacement requirement. As of September 30, 2011, Habitat has accrued for \$162,003 in potential loss on impairment for loans that are currently being serviced by Habitat. As of September 30, 2010, Habitat has accrued for \$274,336 in potential loss on impairment for loans that are currently being serviced by Habitat.

NOTE 18. RELATED PARTY TRANSACTIONS

The Organization paid \$72,439 and \$108,383 to a law firm that has a board member as a stockholder during the years ended September 30, 2011 and 2010, respectively.

The Organization paid \$2,829 and \$5,450 to an accounting firm that has a board member as a stockholder during the years ended September 30, 2011 and 2010, respectively.

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 \$242,600 at September 30, 2010. There is no outstanding balance at September 30, 2011.

The Organization has a promissory note receivable totaling \$183,850 at September 30, 2010, from entities related and/or controlled by a board member. There is no outstanding promissory note receivable balance at September 30, 2011. See Note 6 for promissory note terms.

NOTE 19. 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 20. 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 21. SUBSEQUENT EVENTS

The Organization has evaluated subsequent events through [REDACTED], 2011, the date on which the financial statements were available to be issued, and no additional disclosures are necessary.

DRAFT

SUPPLEMENTARY INFORMATION

DRAFT

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 and Hendry Counties, Inc.
North Fort Myers, Florida**

We have audited the consolidated financial statements of Habitat for Humanity of Lee and Hendry Counties, Inc. ("Habitat") as of and for the year ended September 30, 2011, and have issued our report thereon dated November XX, 2011. 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.

A deficiency in internal control 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 and correct misstatements on a timely basis. A *material weakness* is a deficiency, or combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

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

DRAFT

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.

Atlanta, Georgia
November XX, 2011

DRAFT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH
OMB CIRCULAR A-133**

**Board of Directors
Habitat for Humanity of Lee and Hendry Counties, Inc.
North Fort Myers, Florida**

Compliance

We have audited Habitat for Humanity of Lee and Hendry Counties, Inc. ("Habitat") compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Habitat's major federal programs for the year ended September 30, 2011. Habitat's major federal programs and projects are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs and projects is the responsibility of Habitat's management. Our responsibility is to express an opinion on Habitat's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profits Organizations*. Those standards and OMB A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program 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 compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2011.

Internal Control Over Compliance

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 federal programs. 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 federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, 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.

DRAFT

A *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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 federal awarding agencies, and is not intended to be and should not be used by anyone other than these specified parties.

Atlanta, Georgia
November, XX, 2011

DRAFT

**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS THAT
COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH MAJOR PROGRAM 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 and Hendry Counties, Inc.
North Fort Myers, Florida**

Compliance

We have audited Habitat for Humanity of Lee and Hendry Counties, Inc. ("Habitat") compliance with the types of compliance requirements described in the Department of Financial Services *State Projects Compliance Supplement* that could have a direct and material effect on each of Habitat's major state programs and projects for the year ended September 30, 2011. 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. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its state programs and projects is the responsibility of Habitat's management. Our responsibility is to express an opinion on Habitat's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Chapter 691-5, Rules of the Florida Department of Financial Services, Florida Administrative Code. Those standards and 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 program or 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 compliance requirements referred to above that could have a direct and material effect on each of its major state programs and projects for the year ended September 30, 2011.

Internal Control Over Compliance

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 programs and 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 program or project to determine the auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with Chapter 691-5, 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 *deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program or project on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program or project will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be deficiencies, 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.

Atlanta, Georgia
██████████, 2011

**HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.
 SCHEDULE OF EXPENDITURES OF
 FEDERAL AWARDS
 SEPTEMBER 30, 2011**

DRAFT

<u>Grantor/Contract</u>	<u>CFDA Number</u>	<u>Contract Number</u>	<u>Total Federal Expenditures</u>
U.S. Department of Housing and Urban Development Pass-through City of Cape Coral			
NSP3 Program	14.218	**	\$ 663,242
CDBG Program	14.218	**	<u>14,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u><u>\$ 677,242</u></u>

There were no transfers of Federal Awards to sub-recipients during the year.

** There was no contract number provided by the City of Cape Coral for their contract but the contract was described as being funded by the Neighborhood Stabilization Program (NSP3) and the Community Development Block Grant (CDBG).

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC
NOTE TO SCHEDULE OF EXPENDITURES OF
FEDERAL AWARDS
SEPTEMBER 30, 2011

DRAFT

(1) PURPOSE OF THE SCHEDULE

The accompanying schedule of expenditures of federal awards includes the federal grant activity of Habitat for Humanity of Lee and Hendry Counties, Inc. and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.
SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
SEPTEMBER 30, 2011

DRAFT

<u>Grantor/Contract</u>	<u>CSFA Number</u>	<u>Lee County Contract Number</u>	<u>Total State Expenditures</u>
State Housing Initiatives Partnership Program			
Lee County Contract	52.901	C4733	\$ 339,000
Lee County Contract	52.901	C5463	90,000
Lee County Contract	52.901	C5462-CD	223,235
Lee County Contract	52.901	C5630	158,000
Cape Coral Contract 2007-2008	**	**	183,889
Cape Coral Contract 2010-2011	**	**	<u>74,279</u>
TOTAL EXPENDITURES OF STATE FINANCIAL ASSISTANCE			<u>\$ 1,068,403</u>

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

** There was no CSFA 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 AND HENDRY COUNTIES, INC.

**NOTES TO SCHEDULE OF EXPENDITURES OF
STATE FINANCIAL ASSISTANCE
SEPTEMBER 30, 2011**

DRAFT

(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 "***".

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, 2011.

Basis of Accounting

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

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011

DRAFT

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

Federal Awards

Internal control over major programs:

- Material weakness(as) identified? Yes No
- Significant deficiencies identified that are not considered to be material weakness? Yes None reported

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 federal program: Unqualified

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 section 510(a) of Circular A-133? Yes No

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 federal programs:

CFDA Number(s)

Name of Major Program

14.218

Neighborhood Stabilization Program (NSP3)

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011

DRAFT

Section I - Summary of Auditor's Results (Continued)

Identification of major state 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 major
federal programs:

\$300,000

Auditee qualified as low-risk auditee for major federal program? Yes No

Auditee qualified as low-risk auditee for major state project? Yes No

**HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011**

DRAFT

Section II - Financial Statement Findings

No audit findings indentified.

**HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED SEPTEMBER 30, 2011**

DRAFT

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 AND HENDRY COUNTIES, INC.
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS
FOR THE YEAR ENDED SEPTEMBER 30, 2010**

DRAFT

No prior year audit findings indentified.