HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2012

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED FINANCIAL REPORT
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MAULDIN & JENKINS
CERTIFIED PUBLIC ACCOUNTANTS, LLC

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, 2012 and 2011, 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. 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, 2012 and 2011, 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.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 21, 2012

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2012 AND 2011

Assets	2012	2011
Cash and cash equivalents		
Operating	$ 1,809,247	$ 2,180,922
Escrow	28,690	20,501
Pledges and accounts receivable, net	632,649	869,552
Investments for gift annuity obligations	252,143	225,216
Prepaid expenses and deposits	115,910	50,100
Building materials inventory	141,339	122,246
First and second mortgages receivable, net of an allowance for doubtful accounts of $4,034,500 and $4,396,602 for 2012 and 2011, respectively	7,196,970	6,232,387
Land held for home sites	1,643,181	1,690,595
Construction in progress	388,026	1,654,325
Property and equipment, net	7,177,193	7,339,152
Total assets	$ 19,385,348	$ 20,384,996
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued liabilities	$ 259,509	$ 399,384
Accrued Chinese drywall remediation costs (see Note 11)	60,708	264,054
Escrow accounts payable	48,939	51,979
Annuity obligations payable	120,578	147,058
Long-term debt	536,207	660,357
Total liabilities	1,025,941	1,522,832
Net assets:		
Unrestricted:		
Undesignated	17,720,089	18,204,502
Board designated	115,980	22,983
Total unrestricted	17,836,069	18,227,485
Temporarily restricted	523,338	634,679
Total net assets	18,359,407	18,862,164
Total liabilities and net assets	$ 19,385,348	$ 20,384,996

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, 2012

	Unrestricted	Temporarily Restricted	Total
Changes in unrestricted net assets			
Revenue and support:			
Contributions			
Cash and pledge contributions	$ 522,403	$ -	$ 522,403
Materials and services	702,205	-	702,205
Land donations	99,088	-	99,088
Special events (less direct expenses of $154,537)	663,288	-	663,288
Grants and subsidies	987,749	-	987,749
Application fees	96,859	-	96,859
Retail store sales	645,578	-	645,578
Amortization of mortgage discounts	172,423	-	172,423
Interest income	18,203	-	18,203
Rental income	364,263	-	364,263
Gift annuity income	13,191		13,191
Miscellaneous revenue	3,937	-	3,937
Net assets released from restriction	111,341	(111,341)	-
	4,400,528	(111,341)	4,289,187
Transfers to homeowners for mortgage loans	3,563,181	-	3,563,181
Total revenue and support	7,963,709	(111,341)	7,852,368
Expenses			
Program services			
Construction	6,023,707	-	6,023,707
Retail stores	651,093	-	651,093
Family outreach	514,028	-	514,028
Senior housing	440,294	-	440,294
Total program service expenses	7,629,122	-	7,629,122
Administrative and general	321,352	-	321,352
Fundraising	175,519	-	175,519
Total administrative and general and fundraising expenses	496,871	-	496,871
Impairment loss	127,901	-	127,901
Loan loss expense	127,711	-	127,711
Change in value of charitable annuities split-interest agreements	(26,480)	-	(26,480)
Changes in net assets	(391,416)	(111,341)	(502,757)
Net assets - beginning of year	18,227,485	634,679	18,862,164
Net assets - end of year	$ 17,836,069	$ 523,338	$ 18,359,407

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

	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
Special events (less direct expenses of $98,629)	266,628	-	266,628
Grants and subsidies	2,446,634	-	2,446,634
Application fees	83,091	-	83,091
Retail store sales	563,175	-	563,175
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
Changes in net assets	(1,049,654)	(74,750)	(1,124,404)
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 FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2012

	Program Services				Total	Administrative		
	Construction	Retail Stores	Family Outreach	Senior Housing	Program Services	and General	Fundraising	Total
Construction costs	$ 5,853,003	$ -	$ -	$ -	$ 5,853,003	$ -	$ -	$ 5,853,003
Direct program expenses								
Volunteer department	132,649	-	-	-	132,649	-	-	132,649
Tithe to Habitat for Humanity International	83,950	-	-	-	83,950	-	-	83,950
Program indirect expenses								
Communication	41,974	41,974	41,974	41,974	167,896	-	-	167,896
Development	-	-	-	-	-	-	175,519	175,519
Cost of retail store sales	-	574,470	-	-	574,470	-	-	574,470
Family outreach service costs	-	-	531,750	-	531,750	-	-	531,750
Mortgage expenses	-	-	58,897	-	58,897	-	-	58,897
Senior housing costs	-	-	-	282,781	282,781	-	-	282,781
Administrative indirect expenses								
Office and other salaries	-	-	-	-	-	100,750	-	100,750
Insurance	-	-	-	-	-	14,875	-	14,875
Mortgage interest	-	-	-	-	-	12,501	-	12,501
Office operations	-	-	-	-	-	47,647	-	47,647
Maintenance	-	-	-	-	-	3,628	-	3,628
Real estate taxes and fees	-	-	-	-	-	18,500	-	18,500
Utilities	-	-	-	-	-	18,318	-	18,318
Miscellaneous	-	-	-	-	-	37,510	-	37,510
Total functional expenses before depreciation	6,111,576	616,444	632,621	324,755	7,685,396	253,729	175,519	8,114,644
Depreciation	40,032	34,649	9,118	115,539	199,338	67,623	-	266,961
Total functional expenses	$ 6,151,608	$ 651,093	$ 641,739	$ 440,294	$ 7,884,734	$ 321,352	$ 175,519	$ 8,381,605

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2011

	Program Services				Total	Administrative		
	Construction	Retail Stores	Family Outreach	Senior Housing	Program Services	and General	Fundraising	Total
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.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contracts and donations	$ 8,162,578	$ 9,353,263
Cash payments for program and support services	(10,774,126)	(11,642,812)
Cash received for interest	18,203	8,238
Cash payments for interest	(27,260)	(31,327)
Net cash (used in) operating activities	(2,620,605)	(2,312,638)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(105,002)	(98,524)
Proceeds from the sale of property	-	311,600
Notes receivable payments received, net	-	242,600
Proceeds from the sale of mortgages	2,004,427	772,675
Mortgage payments received	492,636	555,269
Net cash provided by investing activities	2,392,061	1,783,620
CASH FLOWS FROM FINANCING ACTIVITIES:		
Annuity payments	(18,981)	(26,210)
Proceeds from notes payable	-	635,165
Principal payments on notes and mortgages payable	(124,150)	(974,098)
Net cash (used in) financing activities	(143,131)	(365,143)
(Decrease) in cash and cash equivalents	(371,675)	(894,161)
Cash and cash equivalents, beginning of year	2,180,922	3,075,083
Cash and cash equivalents, end of year	$ 1,809,247	$ 2,180,922

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2012 AND 2011

	2012	2011
Changes in net assets	$ **(502,757)**	$ (1,124,404)
Adjustments to reconcile changes in net assets to net cash (used in) operating activities		
Depreciation	**266,961**	309,557
Impairment loss	**127,901**	88,391
Loan loss expense	**127,711**	481,555
(Gain) on sale of mortgages receivable and foreclosures	**(54,404)**	(91,196)
Issuance of first and second mortgages receivable less discount	**(3,534,953)**	(2,565,111)
Loss on disposal of property and equipment	**-**	229,690
Donated land held for home sites	**(99,088)**	(72,906)
Donated materials and services	**(260,605)**	(315,146)
(Increase) decrease in assets		
Pledges and accounts receivable	**225,674**	73,629
Charitable annuity split-interest agreements	**(7,946)**	32,044
Prepaid expenses and deposits	**(65,810)**	(45,977)
Building materials inventory	**241,512**	326,309
Land held for home sites	**146,502**	(98,744)
Construction in progress	**1,138,398**	644,780
Increase (decrease) in liabilities		
Accounts payable, other accrued liabilities, imputed interest	**(139,875)**	171,278
Accrued Chinese drywall remediation costs	**(203,346)**	(392,534)
Annuity obligations payable	**(26,480)**	36,147
Net cash (used in) operating activities	$ **(2,620,605)**	$ (2,312,638)

See Notes to Consolidated Financial Statements.

NOTE 1. NATURE OF ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

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)

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% was used to determine the present value of all split interest agreements at September 30, 2012 and 2011.

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.

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

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.

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 $3,534,300 and $3,896,602 as of September 30, 2012 and 2011, 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 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.

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

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, 2012 and 2011, Habitat recorded impairment losses of $127,901 and $88,391, respectively, which was recognized in the consolidated Statements of Activities and Changes in Net Assets. Of the total impairment losses for the years ended September 30, 2012 and 2011, all of it is related to land held for home sites.

Donated Material and Services

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

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

Significant Accounting Policies (Continued)

Donated Material and Services (Continued)

Donated materials and professional services in the amount of $702,205 and $1,144,555 were recognized as contributed material and services for the years ended September 30, 2012 and 2011, respectively.

No amounts have been reflected in the statement of activities for volunteer services because the criteria for recognition of such volunteer efforts under FASB guidance have not been satisfied. Nevertheless, volunteers have donated a substantial amount of their time to the program services of the Organization.

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.

Management has considered the tax positions taken in its tax returns and believes that all of the positions taken by the Organization in its federal exempt organization tax returns are more likely-than-not to be sustained upon examination.

The Organization's federal returns for the years ended September 30, 2011, 2010, and 2009 could be subject to examination by federal taxing authorities, generally for 3 years after they are filed.

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 2012 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.

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, 2012 and 2011, Habitat held $821,608, and $819,010, respectively, in tax and insurance escrow funds. These assets, along with the corresponding liability, are not included on the consolidated statements 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 $523,338 and $634,379 as of September 30, 2012 and 2011, respectively, and is restricted for subsequent debt payments.

During the years ended September 30, 2012 and 2011, $111,341 and $85,164, respectively, was released from temporarily restricted net assets to unrestricted net assets.

NOTE 4. PLEDGES RECEIVABLE

At September 30, 2012 and 2011, pledges receivable consisted of the following:

2012:	**Temporarily Restricted**
Receivable in less than one year	**$ 108,225**
Receivable in one to five years	**559,689**
	667,914
Less time value discount	**(144,586)**
Total pledges receivable	**$ 523,328**

2011:	Temporarily Restricted
Receivable in less than one year	$ 91,427
Receivable in one to five years	718,219
	809,646
Less time value discount	(175,267)
Total pledges receivable	$ 634,379

Pledge discount rate was 5% for the years ended September 30, 2012 and 2011.

NOTE 5. MORTGAGES RECEIVABLE

There were first mortgages receivable on 175 and 184 homes at September 30, 2012 and 2011, respectively.

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

	2012	2011
Balance, beginning of year	**$ 6,232,387**	$ 5,385,579
New mortgages	**3,534,953**	2,565,111
	9,767,340	7,950,690
Payments	**(492,636)**	(555,269)
Foreclosures and deeds in lieu	**(247,950)**	(1,533,000)
(Sales) purchases of mortgages	**(1,829,784)**	369,966
	$ 7,196,970	$ 6,232,387

Maturities of first mortgage notes receivable are summarized as follows:

	2012	2011
Gross amounts due in:		
Less than one year	**$ 648,056**	$ 626,735
1 to 5 years	**2,495,559**	2,414,326
After 5 years	**6,475,330**	6,288,576
	9,618,945	9,329,637
Unamortized discount	**(1,921,975)**	(2,597,250)
Allowance for doubtful accounts	**(500,000)**	(500,000)
Net amounts due	**$ 7,196,970**	$ 6,232,387

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

	2012	2011
Gross non-impaired loans with a valuation allowance	**$ 8,031,342**	$ 7,918,729
Valuation allowance for non-impaired loans	**(413,023)**	(337,997)
Net gross non-impaired loans	**$ 7,618,319**	7,580,732
Gross impaired loans with a valuation allowance	**$ 1,587,603**	$ 1,910,908
Valuation allowance for impaired loans	**(86,977)**	(162,003)
Net gross impaired loans	**$ 1,500,626**	$ 1,748,905
Second mortgages with a valuation allowance	**$ 3,534,500**	$ 3,896,602
Valuation allowance for second mortgages	**(3,534,500)**	(3,896,602)
Net second mortgages	**$ -**	$ -

During the year ended September 30, 2012, Habitat sold mortgages receivable with a book value of $2,269,911 for $2,004,427. During the year ended September 30, 2011, Habitat sold mortgages receivable with a book value of $773,749 for $1,011,825.

NOTE 6. HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2012, 54 homes were transferred to homeowners and 22 were under rehabilitation or completed at year-end. During the year ended September 30, 2011, 70 homes were transferred to homeowners and 37 were under construction or completed at year-end.

NOTE 7. PROPERTY AND EQUIPMENT

At September 30, 2012 and 2011, the carrying value of property and equipment and the related accumulated depreciation are as follows:

	2012	2011
Land	$ 1,346,717	$ 1,323,163
Buildings and building improvements	7,078,706	7,031,768
Office fixtures and equipment	76,039	76,039
Computer equipment	90,989	80,466
Forklifts and other equipment	76,606	70,105
Vehicles	565,918	548,429
	9,234,975	9,129,972
Less accumulated depreciation	(2,057,782)	(1,790,818)
	$ 7,177,193	$ 7,339,152

NOTE 8. 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 $28,960 and $21,552 for the years ended September 30, 2012 and 2011, respectively.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2012, are:

Year ending September 30,	
2013	$ 9,349
2014	9,349
2015	9,349
Total minimum future rental payments	$ 28,047

NOTE 9. LINE OF CREDIT

During the year ended September 30, 2012, the Organization renewed an unsecured line of credit of $1,500,000 with a financial institution to maintain the day-to-day operating activity. The line of credit bears interest at 3.75%, and matures on March 2013. There is no outstanding balance at September 30, 2012.

During the year ended September 30, 2011, the Organization renewed an unsecured line of credit of $1,500,000 with a financial institution to maintain the day-to-day operating activity. The line of credit bears interest at 3.75%, and matures in March 2012. There is no outstanding balance at September 30, 2011.

NOTE 10. LONG-TERM DEBT

		2012		2011
Unsecured note payable to financial institution, annual payments of $135,000, principal and interest at 5%, maturing December 2016.	$	**523,328**	$	634,679
Loans payable to finance vehicle purchases, payable to a finance company at 0% interest and monthly payments of $644 with final payments due May 2014.		**12,879**		21,167
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
	$	**536,207**	$	660,357

Principal maturities of long-term debt at September 30, 2012 are as follows:

Year ending September 30,		
2013	$	**115,806**
2014		**118,847**
2015		**119,524**
2016		**125,651**
2017		**56,379**
	$	**536,207**

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, 2012, the Organization has 2 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 $60,708 and $264,054 at September 30, 2012 and 2011, respectively. The Organization has accrued these costs in the consolidated statements of financial position at September 30, 2012 and 2011. The Organization has expensed $176,885 of these costs on the consolidated statements of activities during the year ended September 30, 2011. The Organization did not have any costs on the consolidated statements of activities during the year ended September 30, 2012.

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).

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, 2012.

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, 2012:

	Level 1	Level 2	Level 3	Total
Mutual funds:				
U.S. equities	**$ 139,079**	**$ -**	**$ -**	**$ 139,079**
International equities	**32,521**	**-**	**-**	**32,521**
Fixed income funds	**68,944**	**-**	**-**	**68,944**
Total mutual funds	**240,544**	**-**	**-**	**240,544**
Total assets at fair value	**$ 240,544**	**$ -**	**$ -**	**$ 240,544**

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, 2011:

	Level 1	Level 2	Level 3	Total
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	$ 206,100	$ -	$ -	$ 206,100

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.

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, 2012, for which nonrecurring change in fair value has been recorded during the year ended September 30, 2012.

	Carrying Value at September 30, 2012			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	**$ -**	**$ 1,587,603**	**$ -**	**$ 1,587,603**
Impaired land held for home sites	**-**	**1,643,181**	**-**	**1,643,181**
Total	**$ -**	**$ 3,230,784**	**$ -**	**$ 3,230,784**

NOTE 12. FAIR VALUE MEASUREMENTS (Continued)

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, 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	$ -	$ 3,601,503	$ -	$ 3,601,503

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 $18,176,420 as of September 30, 2012 and $17,307,099 as of September 30, 2011 that it sold to outside investors. These mortgages are not owned by Habitat and, therefore, are not reflected in the 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 $83,950 for the year ended September 30, 2012. This amount is included in program services expense in the consolidated statement of functional expenses. Habitat International agreed to relieve Habitat of its 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, 2012, Habitat entered into various contracts with Lee County and the City of Cape Coral to construct or rehabilitate 32 single-family homes. 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. 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, 2012 and 2011, Habitat's uninsured cash balances totaled $404,666 and $754,821, 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, 2012, Habitat has accrued for $86,977 in potential loss on impairment for loans that are currently being serviced by Habitat. 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.

NOTE 18. RELATED PARTY TRANSACTIONS

The Organization paid $71,817 and $72,439 to a law firm that has a board member as a stockholder during the years ended September 30, 2012 and 2011, respectively.

The Organization paid $1,000 and $2,829 to an accounting firm that has a board member as a stockholder during the years ended September 30, 2012 and 2011, respectively.

The Organization maintains its operating account and money market account in a commercial bank that a board member is area president of. The Organization also has an unsecured line of credit with the same commercial bank (see Note 9).

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. The employer match expenses for the years ended September 30, 2012 and 2011 are $48,540 and $37,864, respectively.

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 December 21, 2012, the date on which the financial statements were available to be issued, and no additional disclosures are necessary.