HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED FINANCIAL REPORT

SEPTEMBER 30, 2013

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TABLE OF CONTENTS

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 financial statements of Habitat for Humanity of Lee and Hendry Counties, Inc. (a nonprofit organization) ("Habitat"), which comprise the consolidated statements of financial position as of September 30, 2013 and 2012, and the related consolidated statements of activities and changes in net assets, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

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, 2013 and 2012, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Mauldin & Jenkins, LLC

Atlanta, Georgia
December 13, 2013

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
SEPTEMBER 30, 2013 AND 2012

Assets	2013	2012
Cash and cash equivalents		
Operating	**$ 3,704,820**	$ 1,809,247
Escrow	**171,406**	28,690
Pledges and accounts receivable, net	**570,017**	632,649
Investments for gift annuity obligations	**252,858**	252,143
Prepaid expenses and deposits	**289,609**	115,910
Building materials inventory	**115,067**	141,339
First and second mortgages receivable, net of an allowance for doubtful accounts of $3,123,072 and $4,034,500 for 2013 and 2012, respectively	**4,878,915**	7,196,970
Land held for home sites	**1,858,962**	1,643,181
Construction in progress	**1,851,711**	388,026
Property and equipment, net	**7,043,543**	7,177,193
Total assets	**$ 20,736,908**	$ 19,385,348
Liabilities and Net Assets		
Liabilities:		
Accounts payable and other accrued liabilities	**$ 561,037**	$ 259,509
Accrued Chinese drywall remediation costs (see Note 11)	**25,000**	60,708
Escrow accounts payable	**64,029**	48,939
Annuity obligations payable	**163,682**	120,578
Long-term debt	**1,037,385**	536,207
Total liabilities	**1,851,133**	1,025,941
Net assets:		
Unrestricted:		
Undesignated	**18,314,077**	17,720,089
Board designated	**157,225**	115,980
Total unrestricted	**18,471,302**	17,836,069
Temporarily restricted	**414,473**	523,338
Total net assets	**18,885,775**	18,359,407
Total liabilities and net assets	**$ 20,736,908**	$ 19,385,348

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, 2013

	Unrestricted	Temporarily Restricted	Total
Changes in unrestricted net assets			
Revenue and support:			
Contributions			
Cash and pledge contributions	$ 1,371,176	$ -	$ 1,371,176
Materials and services	1,059,913	-	1,059,913
Home donations	988,549	-	988,549
Land donations	56,447	-	56,447
Special events (less direct expenses of $129,013)	612,126	-	612,126
Grants and subsidies	466,018	-	466,018
Application fees	99,561	-	99,561
Retail store sales	899,216	-	899,216
Amortization of mortgage discounts	77,540	-	77,540
Interest income	1,750	-	1,750
Rental income	363,322	-	363,322
Gift annuity income	8,849	-	8,849
Gain on sale of land	258,067	-	258,067
Gain on disposal of fixed assets	11,031	-	11,031
Miscellaneous revenue	10,754	-	10,754
Net assets released from restriction	108,865	(108,865)	-
	6,393,184	(108,865)	6,284,319
Transfers to homeowners for mortgage loans	2,099,425	-	2,099,425
Total revenue and support	8,492,609	(108,865)	8,383,744
Expenses			
Program services			
Construction	5,412,702	-	5,412,702
Retail stores	797,006	-	797,006
Family outreach	566,140	-	566,140
Senior housing	427,198	-	427,198
Total program service expenses	7,203,046	-	7,203,046
Administrative and general	242,827	-	242,827
Fundraising	182,670	-	182,670
Total administrative and general and fundraising expenses	425,497	-	425,497
Impairment loss	223,107	-	223,107
Change in value of charitable annuities split-interest agreements	5,726	-	5,726
Changes in net assets	635,233	(108,865)	526,368
Net assets - beginning of year	17,836,069	523,338	18,359,407
Net assets - end of year	$ 18,471,302	$ 414,473	$ 18,885,775

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 FUNCTIONAL EXPENSES
YEAR ENDED SEPTEMBER 30, 2013

	Program Services				Total	Administrative		
	Construction	Retail Stores	Family Outreach	Senior Housing	Program Services	and General	Fundraising	Total
Construction costs	$ 5,305,597	$ -	$ -	$ -	$ 5,305,597	$ -	$ -	$ 5,305,597
Direct program expenses								
Volunteer department	134,135	-	-	-	134,135	-	-	134,135
Tithe to Habitat for Humanity International	116,605	-	-	-	116,605	-	-	116,605
Program indirect expenses								
Communication	39,841	39,841	39,841	39,841	159,364	-	-	159,364
Development	-	-	-	-	-	-	182,670	182,670
Cost of retail store sales	-	719,718	-	-	719,718	-	-	719,718
Family outreach service costs	-	-	437,763	-	437,763	-	-	437,763
Mortgage expenses	-	-	79,462	-	79,462	-	-	79,462
Senior housing costs	-	-	-	270,192	270,192	-	-	270,192
Administrative indirect expenses								
Office and other salaries	-	-	-	-	-	91,484	-	91,484
Insurance	-	-	-	-	-	11,512	-	11,512
Mortgage interest	-	-	-	-	-	1,924	-	1,924
Office operations	-	-	-	-	-	50,240	-	50,240
Maintenance	-	-	-	-	-	3,626	-	3,626
Real estate taxes and fees	-	-	-	-	-	23,644	-	23,644
Utilities	-	-	-	-	-	8,617	-	8,617
Miscellaneous	-	-	-	-	-	6,890	-	6,890
Total functional expenses before depreciation	5,596,178	759,559	557,066	310,033	7,222,836	197,937	182,670	7,603,443
Depreciation	39,631	37,447	9,074	117,165	203,317	44,890	-	248,207
Total functional expenses	$ 5,635,809	$ 797,006	$ 566,140	$ 427,198	$ 7,426,153	$ 242,827	$ 182,670	$ 7,851,650

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 STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Cash received from contracts and donations	$ 9,707,956	$ 8,162,578
Cash payments for program and support services	(11,915,795)	(10,774,126)
Cash received for interest	1,750	18,203
Cash payments for interest	(25,933)	(27,260)
Net cash (used in) operating activities	(2,232,022)	(2,620,605)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(114,626)	(105,002)
Proceeds from the sale of property	11,100	-
Proceeds from the sale of mortgages	3,156,804	2,004,427
Mortgage payments received	592,120	492,636
Net cash provided by investing activities	3,645,398	2,392,061
CASH FLOWS FROM FINANCING ACTIVITIES:		
Annuity payments	(18,981)	(18,981)
Proceeds from notes payable	617,590	-
Principal payments on notes and mortgages payable	(116,412)	(124,150)
Net cash provided by (used in) financing activities	482,197	(143,131)
Increase (decrease) in cash and cash equivalents	1,895,573	(371,675)
Cash and cash equivalents, beginning of year	1,809,247	2,180,922
Cash and cash equivalents, end of year	$ 3,704,820	$ 1,809,247

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF LEE AND HENDRY COUNTIES, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Changes in net assets	**$ 526,368**	$ (502,757)
Adjustments to reconcile changes in net assets to		
net cash (used in) operating activities		
Depreciation	**248,207**	266,961
Impairment loss	**223,107**	127,901
Loan loss expense	**-**	127,711
(Gain) loss on sale of mortgages receivable and foreclosures	**1,261,580**	(54,404)
Issuance of first and second mortgages receivable less discount	**(2,692,449)**	(3,534,953)
(Gain) on disposal of property and equipment	**(11,031)**	-
Donated land held for home sites	**(56,447)**	(99,088)
Donated homes	**(988,549)**	-
Donated materials and services	**(272,309)**	(260,605)
(Increase) decrease in assets		
Pledges and accounts receivable	**(64,994)**	225,674
Charitable annuity split-interest agreements	**18,266**	(7,946)
Prepaid expenses and deposits	**(173,699)**	(65,810)
Building materials inventory	**298,581**	241,512
Land held for home sites	**(159,334)**	146,502
Construction in progress	**(698,243)**	1,138,398
Increase (decrease) in liabilities		
Accounts payable, other accrued liabilities, imputed interest	**301,528**	(139,875)
Accrued Chinese drywall remediation costs	**(35,708)**	(203,346)
Annuity obligations payable	**43,104**	(26,480)
Net cash (used in) operating activities	**$ (2,232,022)**	$ (2,620,605)

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, 2013 and 2012.

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 $2,923,072 and $3,534,300 as of September 30, 2013 and 2012, 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, 2013 and 2012, Habitat recorded impairment losses of $223,107 and $127,901, 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, 2013 and 2012, $5,412 and $127,901, respectively, related to land held for home sites and $217,695 and $ -, respectively, related to construction in progress.

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 $1,059,913 and $702,205 were recognized as contributed material and services for the years ended September 30, 2013 and 2012, 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 of Habitat considers the likelihood of changes by taxing authorities in its exempt organization returns and discloses potential significant changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed returns that require disclosure in the accompanying financial statements. Generally, Habitat’s tax returns for the years ending before September 30, 2010 are no longer subject to examination by tax authorities.

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.

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, 2013 and 2012, Habitat held $871,165, and $821,608, 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 $414,473 and $523,338 as of September 30, 2013 and 2012, respectively, and is restricted for subsequent debt payments.

During the years ended September 30, 2013 and 2012, $108,865 and $111,341, respectively, was released from temporarily restricted net assets to unrestricted net assets.

NOTE 4. PLEDGES RECEIVABLE

At September 30, 2013 and 2012, pledges receivable consisted of the following:

	Temporarily Restricted
2013:	
Receivable in less than one year	**$ 135,000**
Receivable in one to five years	**328,947**
	463,947
Less time value discount	**(49,474)**
Total pledges receivable	**$ 414,473**

	Temporarily Restricted
2012:	
Receivable in less than one year	$ 135,000
Receivable in one to five years	463,947
	598,947
Less time value discount	(75,619)
Total pledges receivable	$ 523,328

Pledge discount rate was 5% for the years ended September 30, 2013 and 2012.

NOTE 5. MORTGAGES RECEIVABLE

There were first mortgages receivable on 119 and 175 homes at September 30, 2013 and 2012, respectively.

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

	2013	2012
Balance, beginning of year	**$ 7,196,970**	$ 6,232,387
New mortgages	**3,085,370**	3,534,953
	10,282,340	9,767,340
Payments	**(592,120)**	(492,636)
Change in discount rate	**410,790**	-
Change in allowance for doubtful accounts	**300,000**	-
Foreclosures and deeds in lieu	**(1,808,208)**	(247,950)
Sales of mortgages	**(3,713,887)**	(1,829,784)
	$ 4,878,915	$ 7,196,970

Maturities of first mortgage notes receivable are summarized as follows:

	2013	2012
Gross amounts due in:		
Less than one year	**$ 441,000**	$ 648,056
1 to 5 years	**1,726,672**	2,495,559
After 5 years	**4,500,414**	6,475,330
	6,668,086	9,618,945
Unamortized discount	**(1,589,171)**	(1,921,975)
Allowance for doubtful accounts	**(200,000)**	(500,000)
Net amounts due	**$ 4,878,915**	$ 7,196,970

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

	2013	2012
Gross non-impaired loans with a valuation allowance	**$ 5,596,185**	$ 8,031,342
Valuation allowance for non-impaired loans	**(200,000)**	(413,023)
Net gross non-impaired loans	**$ 5,396,185**	7,618,319
Gross impaired loans with a valuation allowance	**$ 1,071,901**	$ 1,587,603
Valuation allowance for impaired loans	**-**	(86,977)
Net gross impaired loans	**$ 1,071,901**	$ 1,500,626
Second mortgages with a valuation allowance	**$ 2,923,072**	$ 3,534,500
Valuation allowance for second mortgages	**(2,923,072)**	(3,534,500)
Net second mortgages	**$ -**	$ -

During the year ended September 30, 2013, Habitat sold mortgages receivable with a book value of $3,713,887 for $3,156,804. During the year ended September 30, 2012, Habitat sold mortgages receivable with a book value of $2,269,911 for $2,004,427.

NOTE 6. HOME BUILDING AND SITE PREPARATION ACTIVITY

During the year ended September 30, 2013, 40 homes were transferred to homeowners and 49 were under rehabilitation or completed at year-end. During the year ended September 30, 2012, 54 homes were transferred to homeowners and 22 were under construction or completed at year-end.

NOTE 7. PROPERTY AND EQUIPMENT

At September 30, 2013 and 2012, the carrying value of property and equipment and the related accumulated depreciation are as follows:

	2013	2012
Land	**$ 1,346,717**	$ 1,346,717
Buildings and building improvements	**7,098,669**	7,078,706
Office fixtures and equipment	**86,534**	76,039
Computer equipment	**92,507**	90,989
Forklifts and other equipment	**108,735**	76,606
Vehicles	**567,150**	565,918
	9,300,312	9,234,975
Less accumulated depreciation	**(2,256,769)**	(2,057,782)
	$ 7,043,543	$ 7,177,193

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 $9,349 and $28,960 for the years ended September 30, 2013 and 2012, respectively.

Minimum future rental payments under the non-cancelable operating leases having a remaining term in excess of one year as of September 30, 2013, are:

Year ending September 30,	
2014	**9,349**
2015	**9,349**
Total minimum future rental payments	**$ 18,698**

NOTE 9. LINES OF CREDIT

During the year ended September 30, 2013, the Organization renewed an unsecured line of credit of $1,000,000 with a financial institution to maintain the day-to-day operating activity. The line of credit bears interest at 2.25%, and matures in March 2014. There is no outstanding balance at September 30, 2013.

During the year ended September 30, 2013, the Organization entered into an unsecured line of credit of $1,000,000 with a financial institution to maintain the day-to-day operating activity. The line of credit bears interest at 3.25%, and matures in July 2014. There is no outstanding balance at September 30, 2013.

During the year ended September 30, 2013, the Organization entered into a secured line of credit of $150,000 with a financial institution to fund the single family affordable housing project. The line of credit bears interest at 3%, and matures in May 2014. The line of credit is secured by the assignment of notes and mortgages receivable. There is no outstanding balance at September 30, 2013.

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 matured in March 2013. There is no outstanding balance at September 30, 2012.

NOTE 10. LONG-TERM DEBT

	2013	2012
Unsecured note payable to financial institution, annual payments of $135,000, principal and interest at 5%, maturing December 2016.	**$ 414,643**	$ 523,328
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.	**5,152**	12,879
Unsecured investment bond payable to a financial institution, quarterly interest payments of 0.25%, full balance due September 2018.	**500,000**	-
Note payable secured by real estate, payable to a financial institution at 3% interest and monthly payments of $1,367 beginning August 2017 with final payment due June 2023.	**90,000**	-
Note payable to finance office equipment, payable to to a finance company at 0% interest and monthly payments of $2,299 with final payment due September 2014.	**27,590**	-
	$ 1,037,385	$ 536,207

Principal maturities of long-term debt at September 30, 2013 are as follows:

Year ending September 30,	
2014	**$ 146,437**
2015	**119,524**
2016	**125,651**
2017	**58,194**
2018	**514,706**
Thereafter	**72,873**
	$ 1,037,385

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, 2013 and 2012, the Organization has 1 and 2 homes, respectively, 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 $25,000 and $60,708 at September 30, 2013 and 2012, respectively. The Organization has accrued these costs in the consolidated statements of financial position at September 30, 2013 and 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, 2013.

> *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.

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, 2013:

	Level 1	Level 2	Level 3	Total
Publicly traded mutual funds	**$ 238,981**	**$ -**	**$ -**	**$ 238,981**
Total assets at fair value	**$ 238,981**	**$ -**	**$ -**	**$ 238,981**

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
Publicly traded mutual funds	$ 240,544	$ -	$ -	240,544
Total assets at fair value	$ 240,544	$ -	$ -	$ 240,544

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, 2013, for which nonrecurring change in fair value has been recorded during the year ended September 30, 2013.

	Carrying Value at September 30, 2013			
	Level 1	**Level 2**	**Level 3**	**Total**
Impaired loans	**$ -**	**$ 1,071,901**	**$ -**	**$ 1,071,901**
Impaired land held for home sites	**-**	**1,858,962**	**-**	**1,858,962**
Total	**$ -**	**$ 2,930,863**	**$ -**	**$ 2,930,863**

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, 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 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 $20,494,843 as of September 30, 2013 and $18,176,420 as of September 30, 2012 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 $116,605 and $83,950 for the years ended September 30, 2013 and 2012, respectively. This amount is included in program services expense in the consolidated statement of functional expenses.

NOTE 15. LEE COUNTY AND CITY OF CAPE CORAL CONTRACTS

During the year ending September 30, 2013, Habitat entered into various contracts with Lee County and the City of Cape Coral to construct or rehabilitate 8 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 32 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, 2013 and 2012, Habitat's uninsured cash balances totaled $1,288,278 and $404,666, 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, 2013, Habitat has accrued for $ - in potential loss on impairment for loans that are currently being serviced by Habitat. 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.

NOTE 18. RELATED PARTY TRANSACTIONS

The Organization paid $91,559 and $71,817 to a law firm that has a board member as a stockholder during the years ended September 30, 2013 and 2012, respectively.

The Organization paid $1,000 and $1,000 to an accounting firm that has a board member as a stockholder during the years ended September 30, 2013 and 2012, 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, 2013 and 2012 are $42,728 and $48,540, 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 13, 2013, the date on which the financial statements were available to be issued.

On October 21, 2013, the Organization purchased 26 lots in Fort Myers for a contract price of $260,000. There was no new debt incurred by the Organization as a result of this transaction.

On October 31, 2013, the Organization purchased land and residences in Fort Myers through a newly formed subsidiary for a contract price of $3,465,000. The transaction was partially financed through a loan in the amount of $2,898,200.