Habitat for Humanity®
of Metro Denver

Consolidated Financial Statements
and
Independent Auditors' Report
December 31, 2010 and 2009

EKS&H
EHRHARDT • KEEFE
STEINER • HOTTMAN PC
CERTIFIED PUBLIC ACCOUNTANTS AND ADVISORS

HABITAT FOR HUMANITY OF METRO DENVER, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Metro Denver, Inc.
Denver, Colorado

We have audited the accompanying consolidated statements of financial position of Habitat for Humanity of Metro Denver, Inc. ("Habitat") (a Colorado non-profit corporation) as of December 31, 2010 and 2009, and the related consolidated statements of activities, 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 consolidated financial statements are free of material misstatement. An audit also includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purposes of expressing an opinion on the effectiveness of Habitat's internal control over financial reporting. Accordingly, we express no opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated 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 Metro Denver, Inc. as of December 31, 2010 and 2009, 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.

Ehrhardt Keefe Steiner + Hottman PC

Ehrhardt Keefe Steiner & Hottman PC

April 25, 2011
Denver, Colorado

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Financial Position

	December 31, 2010	December 31, 2009
Assets		
Assets		
Cash and cash equivalents	$ 2,525,503	$ 1,916,934
Investments held by The Denver Foundation (Note 2)	2,458,255	2,199,714
Escrow deposits held in trust	89,503	82,460
Grants receivable	130,712	56,327
Construction in progress (Note 4)	8,516,689	5,125,047
Other assets	116,354	116,265
Mortgage notes receivable, net (Note 5)	7,481,479	5,943,846
Property and equipment, net (Note 6)	3,683,225	2,655,065
Total assets	$ 25,001,720	$ 18,095,658
Liabilities and Net Assets		
Liabilities		
Accounts payable	$ 151,722	$ 195,560
Other accrued expenses	138,315	138,315
Homeowner deposits	30,107	31,315
Escrow deposits held in trust	89,503	82,460
Mortgage note payable (Note 8)	1,585,958	557,268
Notes payable (Note 9)	2,628,800	-
Notes payable HFHI (Note 10)	226,343	274,134
Total liabilities	4,850,748	1,279,052
Net assets		
Unrestricted		
Board designated for land and infrastructure	1,500,000	1,000,000
Undesignated	17,755,352	15,390,966
Total unrestricted	19,255,352	16,390,966
Temporarily restricted	895,620	425,640
Total net assets	20,150,972	16,816,606
Total liabilities and net assets	$ 25,001,720	$ 18,095,658

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Activities

	For the Years Ended					
	December 31, 2010			December 31, 2009		
	Unrestricted	Temporarily Restricted	Total	Unrestricted	Temporarily Restricted	Total
Revenues, gains, and support						
Contributions and grants	$ 4,181,631	$ 781,870	$ 4,963,501	$ 4,161,517	$ 425,640	$ 4,587,157
Donated goods and services	2,301,195	-	2,301,195	1,424,875	-	1,424,875
Home sales	2,814,456	-	2,814,456	1,714,430	-	1,714,430
Mortgage interest income	397,388	-	397,388	286,963	-	286,963
Discount earned on the sale of receivables	524,346	-	524,346	499,186	-	499,186
Sales from Habitat Outlets, net of cost of purchased inventory of $91,116 (2010) and $157,013 (2009)	2,166,218	-	2,166,218	2,238,291	-	2,238,291
Other income	103,098	-	103,098	108,516	-	108,516
Net assets released from restrictions due to satisfaction of expenditure requirements	311,890	(311,890)	-	650,989	(650,989)	-
Total revenues, gains, and support	12,800,222	469,980	13,270,202	11,084,767	(225,349)	10,859,418
Expenses						
Program services						
Home construction	7,335,198	-	7,335,198	6,238,640	-	6,238,640
Family services	447,483	-	447,483	419,690	-	419,690
Total program services	7,782,681	-	7,782,681	6,658,330	-	6,658,330
Supporting services						
Management and general	649,716	-	649,716	519,724	-	519,724
Fundraising activities	762,779	-	762,779	655,082	-	655,082
Outlet stores	1,032,609	-	1,032,609	1,136,474	-	1,136,474
Total supporting services	2,445,104	-	2,445,104	2,311,280	-	2,311,280
Total expenses	10,227,785	-	10,227,785	8,969,610	-	8,969,610
Change in net assets before investment income	2,572,437	469,980	3,042,417	2,115,157	(225,349)	1,889,808
Investment income	291,949	-	291,949	351,133	-	351,133
Change in net assets	2,864,386	469,980	3,334,366	2,466,290	(225,349)	2,240,941
Net assets at beginning of year	16,390,966	425,640	16,816,606	13,924,676	650,989	14,575,665
Net assets at end of year	$ 19,255,352	$ 895,620	$ 20,150,972	$ 16,390,966	$ 425,640	$ 16,816,606

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2010

	Program Services			Supporting Services				
	Home Construction	Family Services	Total Program Services	Management and General	Fundraising Activities	Outlet Stores	Total Supporting Services	Total Expenses
Expenses								
Cost of homes sold	$ 5,172,984	$ -	$ 5,172,984	$ -	$ 16,185	$ -	$ 16,185	$ 5,189,169
Salaries and wages	766,078	232,246	998,324	230,164	401,039	502,681	1,133,884	2,132,208
Volunteer labor on homes	617,405	-	617,405	-	-	-	-	617,405
Occupancy	32,420	26,857	59,277	41,916	26,127	189,449	257,492	316,769
Payroll taxes and benefits	166,653	52,489	219,142	14,995	87,886	105,041	207,922	427,064
Habitat for Humanity International tithe	144,000	-	144,000	-	-	-	-	144,000
Depreciation	36,635	18,855	55,490	94,650	18,225	25,135	138,010	193,500
Loss on disposal	-	-	-	1,918	-	-	1,918	1,918
Professional fees	51,897	8,207	60,104	77,178	3,913	18,653	99,744	159,848
Bank and investment fees	-	-	-	43,063	218	44,491	87,772	87,772
Insurance	21,776	11,587	33,363	45,125	11,473	19,982	76,580	109,943
Other construction costs	124,914	61,912	186,826	-	-	-	-	186,826
Marketing and communications	1,181	1,046	2,227	671	142,901	42,484	186,056	188,283
Office supplies	11,488	9,510	20,998	33,428	8,484	17,288	59,200	80,198
Vehicle expense	29,876	-	29,876	-	-	19,275	19,275	49,151
Interest expense	10,518	8,551	19,069	31,122	8,213	-	39,335	58,404
Volunteer expense	95,511	919	96,430	448	3,950	4,854	9,252	105,682
Telephone	12,689	2,360	15,049	3,788	2,852	13,765	20,405	35,454
Printing and postage	1,867	4,879	6,746	7,041	6,465	2,238	15,744	22,490
Miscellaneous	41	36	77	5,502	20	1,458	6,980	7,057
Administrative fees	8,407	5,701	14,108	9,400	18,932	350	28,682	42,790
Equipment purchase and repair expense	19,282	-	19,282	-	-	20,180	20,180	39,462
Staff development	6,337	1,643	7,980	4,823	4,715	1,248	10,786	18,766
Travel and transportation	3,239	685	3,924	4,484	1,181	4,037	9,702	13,626
Total expenses	$ 7,335,198	$ 447,483	$ 7,782,681	$ 649,716	$ 762,779	$ 1,032,609	$ 2,445,104	$ 10,227,785

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Functional Expenses
For the Year Ended December 31, 2009

	Program Services			Supporting Services				
	Home Construction	Family Services	Total Program Services	Management and General	Fundraising Activities	Outlet Stores	Total Supporting Services	Total Expenses
Expenses								
Cost of homes sold	$ 4,193,269	$ -	$ 4,193,269	$ -	$ -	$ -	$ -	$ 4,193,269
Salaries and wages	803,671	242,807	1,046,478	81,508	391,265	546,870	1,019,643	2,066,121
Volunteer labor on homes	555,685	-	555,685	-	-	-	-	555,685
Occupancy	46,572	35,657	82,229	66,846	35,571	253,380	355,797	438,026
Payroll taxes and benefits	101,863	37,140	139,003	61,932	55,359	120,781	238,072	377,075
Habitat for Humanity International tithe	140,123	-	140,123	-	-	-	-	140,123
Depreciation	34,116	24,595	58,711	29,918	24,395	28,678	82,991	141,702
Loss on disposal	-	-	-	7,664	-	-	7,664	7,664
Professional fees	7,521	5,556	13,077	88,139	750	6,670	95,559	108,636
Bank and investment fees	1,601	1,484	3,085	42,731	1,484	48,196	92,411	95,496
Insurance	85,678	18,440	104,118	24,407	20,055	28,315	72,777	176,895
Other construction costs	112,177	29,952	142,129	198	-	-	198	142,327
Marketing and communications	340	92	432	2,448	77,324	28,663	108,435	108,867
Office supplies	9,163	13,143	22,306	30,360	16,937	19,110	66,407	88,713
Vehicle expense	23,982	-	23,982	65	-	15,264	15,329	39,311
Interest expense	-	-	-	40,315	-	-	40,315	40,315
Volunteer expense	86,097	833	86,930	2,743	1,204	1,553	5,500	92,430
Telephone	14,318	2,618	16,936	2,730	2,294	15,949	20,973	37,909
Printing and postage	5,257	4,862	10,119	4,811	7,426	1,903	14,140	24,259
Miscellaneous	1,375	735	2,110	14,706	1,708	533	16,947	19,057
Administrative fees	554	991	1,545	5,149	17,960	-	23,109	24,654
Equipment purchase and repair expense	13,030	-	13,030	2,780	-	14,403	17,183	30,213
Staff development	1,759	745	2,504	4,142	650	1,369	6,161	8,665
Travel and transportation	489	40	529	6,132	700	4,837	11,669	12,198
Total expenses	$ 6,238,640	$ 419,690	$ 6,658,330	$ 519,724	$ 655,082	$ 1,136,474	$ 2,311,280	$ 8,969,610

See notes to consolidated financial statements.

HABITAT FOR HUMANITY OF METRO DENVER, INC.

Consolidated Statements of Cash Flows

	For the Years Ended December 31, 2010	2009
Cash flows from operating activities		
Change in net assets	$ 3,334,366	$ 2,240,941
Adjustments to reconcile change in net assets to net cash used in operating activities		
Mortgages made to homeowners	(2,814,456)	(1,714,430)
Discount earned on sale of mortgage receivables	(524,346)	(499,186)
Depreciation expense	193,500	141,702
(Gain) loss on disposal of assets	(900)	7,664
Non-cash contribution of property and equipment	(6,000)	-
Non-cash contribution of land for construction in progress	(75,000)	-
Non-cash construction in progress acquired through federal grants	(973,340)	-
Amortization of mortgage loan discounts	(397,388)	(286,963)
Net realized and unrealized gain on investments	(291,949)	(351,133)
Non-cash contributions of leasehold improvements	-	(335,381)
Changes in assets and liabilities		
Grants receivable	(74,385)	33,549
Construction in progress	285,498	(584,463)
Other assets	(89)	24,811
Accounts payable	(43,838)	(74,955)
Other accrued expenses	-	30,072
Homeowner deposits	(1,208)	(14,855)
	(4,723,901)	(3,623,568)
Net cash used in operating activities	(1,389,535)	(1,382,627)
Cash flows from investing activities		
Mortgage payments received	864,533	745,921
Proceeds from sales of mortgages receivable	1,334,024	1,088,756
Sale of investments	33,408	39,343
Payments for purchases of equipment	(29,481)	(295,396)
Proceeds from sale of equipment	1,018	-
Net cash provided by investing activities	2,203,502	1,578,624
Cash flows from financing activities		
Repayments of mortgage notes payable, notes payable and note payable HFHI	(667,748)	(260,705)
Proceeds from mortgage notes payable, notes payable and note payable HFHI	462,350	100,687
Net cash (used in) financing activities	(205,398)	(160,018)
Net increase in cash and cash equivalents	608,569	35,979
Cash and cash equivalents at beginning of year	1,916,934	1,880,955
Cash and cash equivalents at end of year	$ 2,525,503	$ 1,916,934

(Continued on the following page)

See notes to consolidated financial statements.

Consolidated Statements of Cash Flows

(Continued from the previous page)

Supplemental disclosure of cash flow information:

Interest paid was $58,404 and $40,315 for the years ended December 31, 2010 and 2009, respectively.

Supplemental disclosure of non-cash activity:

	December 31, 2010	December 31, 2009
Issuance of non-interest bearing mortgage loans	$ 4,909,900	$ 2,949,854
Discount on non-interest bearing mortgage loans	(2,095,444)	(1,235,424)
Transfers to homeowners subject to non-interest bearing mortgage loans	$ 2,814,456	$ 1,714,430

During 2010, Habitat purchased a building for $1,186,297 through a mortgage note payable. Habitat also financed the purchase of land included in construction in progress of $2,628,800 through notes payable.

See notes to consolidated financial statements.

Note 1 - Organization and Summary of Significant Accounting Policies

Organization

Habitat for Humanity of Metro Denver, Inc. ("Habitat") is a non-profit corporation formed on April 20, 1979 to raise funds to build or rehabilitate affordable housing for low-income individuals who presently live in inadequate housing or cannot purchase housing through conventional sources. To qualify for housing, an individual must go through an application process. As part of the qualifying process, applicants must contribute up to 500 hours of time ("sweat equity"), meet specific income guidelines, and have a demonstrable need for affordable and quality housing. Financing for individuals is provided by Habitat at no interest with minimum monthly payments. Additionally, Habitat provides family support and educational workshops to qualified homeowners as part of its family services program.

Habitat operates two Home Improvement Outlets (the "Outlets") to provide the community with a source of low-cost materials for home improvement, to reduce the volume of materials going to landfills, and to generate funds for Habitat. Many Habitat homeowners volunteer at the Outlets to earn "sweat equity" hours and work experience.

Habitat is an affiliate of Habitat for Humanity International ("Habitat International").

Habitat Community Housing Development, Inc. ("HCHD") is a separately incorporated nonprofit corporation, formed for the purpose of obtaining certain federal funds set aside for community housing development organizations that will be used by Habitat for the construction of affordable homes for low-income families. Habitat is the sole member of HCHD.

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Habitat and HCHD, collectively referred to as "Habitat." All significant interorganization balances and transactions have been eliminated.

Basis of Presentation

The accompanying consolidated financial statements of Habitat have been prepared on the accrual basis of accounting, and accordingly reflect all significant receivables, payables, and other liabilities. Habitat reports information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets.

> Unrestricted amounts are those currently available at the discretion of the Board for use in Habitat's operations. Unrestricted amounts also include monies designated by the Board for a reserve fund for future land purchases and infrastructure development.
>
> Temporarily restricted amounts are monies restricted by donors specifically for certain time periods, purposes, or programs.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Basis of Presentation (continued)

Permanently restricted amounts are assets that must be maintained permanently by Habitat as required by the donor; but Habitat is permitted to use or expend part or all of any income derived from those assets. Habitat does not currently maintain any permanently restricted net assets.

Cash and Cash Equivalents

For the purposes of the consolidated statements of cash flows, Habitat considers all unrestricted highly liquid investments with an original maturity of three months or less when purchased to be cash equivalents.

Investments

Investments held by The Denver Foundation (the "Foundation") are stated at their fair values in the consolidated statements of financial position. Unrealized gains and losses are included in the change in net assets in the consolidated statements of activities.

Concentrations of Credit Risk

Financial instruments which potentially subject Habitat to concentrations of credit risk consist of cash accounts which may, during the year, exceed the federally insured limit set by the Federal Deposit Insurance Corporation, investments held by the Foundation, and mortgage notes receivable. As of December 31, 2010, Habitat had deposits in excess of federally insured limits of approximately $161,000. Habitat reduces credit risk by placing its cash and temporary investments with creditworthy, high-quality financial institutions.

Habitat finances the construction and ownership of homes to low-income individuals in the Denver Metro area. Habitat has established procedures to limit the risk of default by limiting the sales prices of the homes and not charging interest, thereby designing the monthly mortgage payments of the owners to be manageable. Habitat homes are appraised for value prior to sale; the original sales prices may be set below the appraisal value. However, the values of homes that collateralize the mortgage notes receivable are subject to market value fluctuations beyond the control of management.

Credit risk with respect to contributions receivable is limited due to the number and credit worthiness of the corporations, foundations, churches, and individuals that comprise the contributor base.

Escrow Deposits Held in Trust

Habitat currently services the mortgages on the homes it sells and retains. Certain mortgages are sold to a third party who services the loans they hold. Escrow deposits held in trust include amounts received for insurance, property taxes, and other fees on such homes.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Contributions Receivable

Unconditional contributions receivable are recognized as revenues in the period received. Unconditional contributions receivable are recorded at net realizable value if expected to be collected within one year and at the present value of expected future cash flows if expected to be collected in more than one year. Conditional contributions receivable are recognized when the conditions on which they depend are substantially met.

Habitat uses the allowance method to determine uncollectible contributions receivable. The allowance is based on prior years' experience and management's analysis of specific promises made. There was no allowance for uncollectible contributions receivable at December 31, 2010 or 2009.

Property and Equipment

Property and equipment is recorded at cost or, if donated, at fair value at the date of donation. Habitat capitalizes all property and equipment with a cost or donated value in excess of $5,000 and with an estimated useful life of three years or more. Depreciation is provided on the straight-line method based upon the estimated useful lives of the assets, which range from 3 to 30 years.

Donated Services and Goods

Donated services are recognized as contributions at estimated fair value on the date of receipt if the services (a) create or enhance nonfinancial assets, or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat.

In 2010, Habitat estimated the cost of volunteer labor to be approximately $21,700 for a single-family home, $19,500 for a duplex unit, and $18,700 for a townhome. In 2009, Habitat estimated the cost of volunteer labor to be approximately $21,000 for a single-family home and $19,000 for a duplex unit. These volunteer costs are capitalized and are recognized as contribution revenue and cost of homes sold in the consolidated statements of activities when the home is sold.

Approximately $12,000 and $14,000 was recorded for donated materials and electrical services on each Habitat home during 2010 and 2009, respectively.

Donated property utilized in the operations of Habitat is recorded at the estimated fair value at the date of the donation.

In accordance with the Habitat International *Affiliate Operations Manual*, goods donated to the Outlets are reflected as revenue at the time of sale, when there is an objective, measurable basis for determining fair value. This accounting reflects the nature of many donations received by the Outlets, wherein major uncertainties exist about the realizability of the values; thus, fair value is not determinable within reasonable limits until the time of sale.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Contributions

Habitat records contributions as unrestricted, temporarily restricted, or permanently restricted support depending on the existence and/or nature of any donor restrictions.

Support that is restricted by the donor is reported as an increase in unrestricted net assets if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in temporarily or permanently restricted net assets, depending on the nature of the restriction.

When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statements of activities as net assets released from restrictions.

Functional Allocation of Expenses

The costs of providing the various programs and other activities have been summarized on a functional basis in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Expenses are allocated based upon estimated usage, square footage, or periodic time and expense studies, as is appropriate to the particular cost being allocated.

Income Taxes

Habitat and HCHD are exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code ("IRC"), and both organizations qualify for the charitable contribution deduction. However, income from activities not directly related to their tax-exempt purposes is subject to taxation as unrelated business income. There was no unrelated business income taxes in 2010 and 2009.

Habitat adopted guidance related to uncertainty in income taxes in Financial Accounting Standards Board Accounting Standards Codification Topic 740 on January 1, 2009. After evaluating the tax positions taken, none are considered to be uncertain; therefore, no amounts have been recognized as of December 31, 2010 or 2009. If incurred, interest and penalties associated with tax positions are recorded in the period assessed as other operating expense. No interest or penalties have been assessed as of December 31, 2010 or 2009.

Tax years that remain subject to examination include 2007 through 2010.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Note 1 - Organization and Summary of Significant Accounting Policies (continued)

Subsequent Events

Habitat has evaluated all subsequent events through April 25, 2011, which is the date the consolidated financial statements were available to be issued. No subsequent events require disclosure based upon this evaluation.

Note 2 - Investments Held by The Denver Foundation

Invested funds at the Foundation are pooled with other funds in a diversified portfolio maintained by the Foundation in order to realize the benefits of common administration, but Habitat retains all legal and equitable ownership rights.

Investment return on Habitat's pro-rata share of the pooled investments held by the Foundation is summarized as follows:

	December 31, 2010	December 31, 2009
Realized gains	$ 33,797	$ 25,686
Unrealized gains	258,152	325,447
Total unrestricted investment income	$ 291,949	$ 351,133

Note 3 - Fair Value Measurement

Habitat values its financial assets and liabilities based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. In order to increase consistency and comparability in fair value measurements, the following fair value hierarchy prioritizes inputs used to measure fair value into three broad levels, which are described below:

Level 1: Quoted prices in active markets that are accessible at the measurement date for assets or liabilities. The fair value hierarchy gives the highest priority to Level 1 inputs.

Level 2: Observable prices that are based on inputs not quoted on active markets, but corroborated by market data.

Level 3: Unobservable inputs are used when little or no market data is available.

The determination of where assets and liabilities fall within this hierarchy is based upon the lowest level of input that is significant to the fair value measurement. These classifications (Level 1, 2, or 3) are intended to reflect the observability of the inputs used in the valuation of investments and are not necessarily an indication of risk or liquidity.

Note 3 - Fair Value Measurement (continued)

The carrying amounts of financial assets required to be measured at fair value on a recurring basis include investments held by the Foundation, the fair value of which is based upon information determined and reported by the Foundation, and corroborated with the Foundation's audited financial statements by management. Habitat's pro-rata share of the pooled investments does not have an active market and is therefore classified under Level 3 in the fair value hierarchy.

Below is a reconciliation of the beginning and ending balance of assets held by the Foundation measured at fair value on a recurring basis using significant unobservable inputs (Level 3):

	December 31, 2010	December 31, 2009
Beginning balance	$ 2,199,714	$ 1,887,924
Total realized and unrealized gains	291,949	351,133
Distributions	(33,408)	(39,343)
Ending balance	$ 2,458,255	$ 2,199,714

Included in the change in net assets for the year ended December 31, 2010 and 2009 are net unrealized gains of $258,152 and $325,447, respectively, attributable to Level 3 investments held at year end.

Note 4 - Construction in Progress

Construction in progress consists of undeveloped land and infrastructure costs, as well as partially completed single-family and multi-family dwellings. At December 31, 2010 and 2009, 47 and 43 units were under development, beyond the land purchase phase, respectively.

Habitat's construction in progress is comprised of the following:

	December 31, 2010	December 31, 2009
Completed homes ready for sale	$ 2,288,763	$ 895,736
Construction in progress	2,607,334	1,387,790
Land under development	1,267,966	2,135,597
Land acquired for development	2,352,626	705,924
	$ 8,516,689	$ 5,125,047

Note 5 - Mortgage Notes Receivable

Mortgage notes receivable consist of non-interest bearing notes received from homebuyers in connection with the sale of homes constructed by Habitat. The notes are discounted to their present values using the market rate of interest at the closing date; the discount rate varies from 4.3% to 8.8%. The discount is amortized over the life of the mortgages using the interest method.

Mortgage notes receivable are as follows:

	December 31, 2010	December 31, 2009
Face value of outstanding mortgages receivable	$ 12,808,120	$ 10,119,756
Less discount	(5,326,641)	(4,175,910)
	$ 7,481,479	$ 5,943,846

Approximately $660,000 will be due in 2011 on the above notes.

All mortgage notes receivable are collateralized by the respective homes sold. A committee of the Board of Directors meets together with management quarterly to review delinquent loans and to consider if any foreclosure proceedings should be initiated. Receivable balances are considered to be delinquent based on contractual terms. The need for an allowance is based on past collection experience and on analysis of current mortgage receivable collectibility. Management believes that the fair value of the underlying mortgaged assets far exceeds the value of any of the loans outstanding, and, therefore, no allowance for uncollectible mortgages is recorded.

During 2010, Habitat transferred its interest in certain mortgages receivable to the Colorado Housing and Finance Authority ("CHFA"), receiving $1,334,024 related to the transfer. The transaction is recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the sale during 2010 of $524,346 arising from the conversion of unamortized discount on mortgage notes receivable to cash.

During 2009, Habitat transferred its interest in certain mortgages receivable to the CHFA, receiving $1,088,756 related to the transfer. The transaction is recorded as a sale in the accompanying consolidated financial statements. Habitat recorded revenue from the sale during 2009 of $499,186 arising from the conversion of unamortized discount on mortgage notes receivable to cash.

The sales agreement requires, among other things, that should a mortgagor default on the payment on a loan and the default is not cured within sixty days, Habitat is required to substitute one or more other mortgage loans, which have an aggregate principal balance at least equal to but not more than 125% of the outstanding balance of the mortgage loan being replaced. Habitat will be reimbursed for the excess of the outstanding principal balance of the replacement mortgage loan over the outstanding principal balance of the mortgage loan being replaced. No liability has been recorded for this substitution provision because management believes that the fair value of the underlying mortgaged assets far exceeds the value of any of the loans outstanding. At December 31, 2010, the outstanding principal balance of CHFA held loans received from Habitat is $11,392,944.

Note 6 - Property and Equipment

Habitat's property and equipment is comprised of the following:

	December 31, 2010	December 31, 2009
Buildings	$ 3,903,981	$ 2,717,684
Vehicles	158,986	144,474
Volunteer housing	93,895	93,895
Leasehold improvements	36,316	44,046
Furniture and fixtures	69,480	71,890
Office equipment	44,215	55,946
Construction equipment	15,895	15,895
	4,322,768	3,143,830
Less accumulated depreciation	(639,543)	(488,765)
	$ 3,683,225	$ 2,655,065

Note 7 - Line-of-Credit

Habitat has a $1,000,000 line-of-credit agreement with a bank, due February 20, 2012. The line-of-credit agreement requires monthly interest payments at the bank's prime rate less 1%, with a floor of 3% (the interest rate at December 31, 2010 was 3%). Amounts outstanding are collateralized by certain mortgage notes receivable. At December 31, 2010 and 2009, there were no amounts outstanding under this agreement.

Note 8 - Mortgage Note Payable

Mortgage note payable consists of the following:

	December 31, 2010	December 31, 2009
Mortgage note refinanced with new mortgage note in 2010.	$ -	$ 557,268
Mortgage note due in equal monthly payments of principal and interest of $10,510 with remaining principal due in a balloon payment on June 30, 2020. The note is payable over 10 years, at a fixed rate of 4.8%, with payments amortized over a 20-year basis. The note is secured by a first deed of trust on the Eliot Street and Rio Grande Boulevard real properties, as well as all rents on such property.	1,585,958	-
	$ 1,585,958	$ 557,268

Note 8 - Mortgage Note Payable (continued)

Maturities of mortgage note payable obligations are as follows:

For the Year Ending December 31,	
2011	$ 50,052
2012	52,331
2013	55,148
2014	57,892
2015	60,773
Thereafter	1,309,762
	$ 1,585,958

Note 9 - Notes Payable

Notes payable consist of the following:

	December 31, 2010	December 31, 2009
Notes due to the Denver Housing Authority and Globeville Workforce Housing. No interest or principal payments required. The amounts will be forgiven and recorded as grants revenue between 2018 and 2020, subject to Habitat meeting certain demographic guidelines.	$ 1,280,000	$ -
Notes due to the City and County of Denver. No interest or principal payments required. The amount will be forgiven and recorded as grants revenue in 2020, subject to Habitat using the funds for purposes specified in the agreement.	400,800	-
Note due in equal annual payments of principal only of $237,000 beginning in 2012. The note is payable over four years and bears no interest. The note is secured by a first deed of trust on land and homes on the property purchased and built through use of the funds. Management believes the effect of imputing interest on this note payable to be insignificant.	948,000	-
	$ 1,348,800	$ -

Note 9 - Notes Payable (continued)

Maturities of note payable obligations, including amounts to be forgiven, are as follows:

For the Year Ending December 31,	
2011	$ -
2012	237,000
2013	237,000
2014	237,000
2015	237,000
Thereafter	1,680,800
	$ 2,628,800

Note 10 - Notes Payable HFHI

Long-term debt consists of the following:

	December 31, 2010	December 31, 2009
Unsecured, non-interest bearing notes payable to Habitat International, payable in monthly installments ranging from $340 to $1,093, maturing between December 2011 and December 2015.	$ 226,343	$ 274,134

Principal payments required under the above agreements are as follows:

For the Year Ending December 31,	
2011	$ 58,753
2012	76,347
2013	39,462
2014	34,129
2015	17,652
	$ 226,343

Note 11 - Net Assets

Unrestricted Board Designated

The Board of Directors has designated $1,500,000 and $1,000,000 of unrestricted net assets at December 31, 2010 and 2009, respectively, for future land and infrastructure costs expected on outstanding and planned projects.

Note 11 - Net Assets (continued)

Temporarily Restricted

Temporarily restricted net assets are comprised of the following:

	December 31, 2010	December 31, 2009
Home sponsorships	$ 895,620	$ 425,640

Note 12 - Building Lease Agreements

Through September 2009, Habitat had an agreement with a business to lease a building that Habitat used as its headquarters at no charge. In September 2009, Habitat moved into its new headquarters office and entered into an operating lease for the office space which also included a purchase option. Habitat executed its option to purchase the property effective as of June 30, 2010, which was financed through a mortgage note payable (Note 8).

Habitat has also entered into two non-cancelable operating lease agreements for the Home Improvement Outlet Wheat Ridge ("Wheat Ridge") building and its production warehouse. The leases expired December 31, 2010. Habitat entered into a new non-cancelable operating lease that commenced January 2011 and expiring February 2016, which requires monthly payments of approximately $12,000.

The lease for Wheat Ridge required a $60,000 letter-of-credit maturing December 31, 2010 in lieu of a security deposit. This requirement ceased with the expiration of the lease.

Rent expense for the year ended December 31, 2010 was $231,017. Rent expense for the year ended December 31, 2009 was $306,845, including in-kind expense of $98,667.

Future minimum lease payments, including estimated maintenance charges, are approximately as follows:

For the Year Ending December 31,	
2011	$ 191,000
2012	200,000
2013	212,000
2014	215,000
2015	191,000
Thereafter	25,000
	$ 1,034,000

Note 13 - Transactions with Habitat International and Habitat Colorado

Habitat voluntarily remits a portion of its contributions to Habitat International on an annual basis. These funds are used to construct homes in economically depressed areas around the world. For the years ended December 31, 2010 and 2009, Habitat contributed $144,000 and $140,123, respectively, to Habitat International. This amount is included in program services in the consolidated statements of activities.

Habitat is a sub-recipient of certain government grants received directly by Habitat International and Habitat Colorado.

Note 14 - Contingencies

Guarantee Agreements

Habitat has entered into various grant agreements to receive funds for construction development costs. The grant arrangement requires individuals who purchase homes funded by these grant monies to sign a promissory note payable to the grantor agency for a specified amount. The promissory note must be repaid to the grantor in the event of a sale, transfer, or other disposition of the home within a specified period of time. The promissory note is forgiven if a sale, transfer, or other disposition of the home does not occur within a time specified in the grant agreement.

Habitat has guaranteed these homeowners' promissory notes to the grantor agencies. Should Habitat need to foreclose on a home, it will pay the homeowner's promissory note from the proceeds arising from the resale of the home.

Grant Awards

Financial awards from federal, state, and local governmental entities in the form of grants are subject to special audit. Such audits could result in claims against Habitat for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts cannot be determined at this date and Habitat expects such amounts, if any, to be immaterial.

Claims and Litigation

From time to time, Habitat is the subject of claims arising from injuries sustained at construction sites or at Habitat Outlets. Habitat carries insurance and utilizes volunteer waivers to manage the risks associated with these jobsites. Habitat also incurs other types of claims in the course of doing business, and carries insurance and follows established procedures for construction, contracting, and human resources to manage these risks. No provision has been made for any liabilities that may arise from such claims since the amounts cannot be determined at this date and Habitat expects such amounts, if any, to be covered by insurance.

Note 15 - Retirement Plan

Habitat maintains a tax-deferred annuity plan (the "Plan") qualified under IRC Section 403(b). The Plan covers all employees of Habitat. Habitat provides employees the opportunity to contribute a portion of their gross salaries to the Plan, up to the maximum amount established by the Plan. Habitat matches 100% of employees' contributions up to a maximum of 3% of the employees' annual compensation. As of June 30, 2010, Habitat terminated the Plan, and created a new tax-deferred annuity plan qualified under IRC Section 401(k). The new Plan covers all employees of Habitat and maintains the same contribution and matching terms. During 2010 and 2009, Habitat contributed \$57,622 and \$42,833, respectively, in matching contributions.