

**HABITAT FOR HUMANITY OF
PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.**

COMBINED FINANCIAL STATEMENTS

June 30, 2010 and 2009

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AND HABITAT RESTORE, INC.**

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Palm Beach County, Inc.
and Habitat Restore, Inc.
West Palm Beach, Florida

We have audited the accompanying combined statements of financial position of Habitat for Humanity of Palm Beach County, Inc. (the "Organization") and Habitat Restore, Inc. (the "Restore") (both not-for-profit organizations) as of June 30, 2010 and 2009, and the related combined statements of activities, functional expenses and cash flows for the years then ended. These combined financial statements are the responsibility of the Organization's and Restore's respective managements. Our responsibility is to express an opinion on these combined 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 combined financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the combined financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall combined financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the combined financial position of Habitat for Humanity of Palm Beach County, Inc. and Habitat Restore, Inc. as of June 30, 2010 and 2009, and the combined changes in their net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

KEEFE, McCULLOUGH & CO., LLP

Fort Lauderdale, Florida
November 16, 2010

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENTS OF FINANCIAL POSITION
June 2010 and 2009

A S S E T S

	2010	2009
ASSETS:		
Cash and cash equivalents	\$ 1,074,443	\$ 1,367,825
Unconditional promises to give	361,000	42,931
Mortgage notes receivable, net	1,925,383	1,792,701
Other receivables	-	358
Prepays and other assets	39,170	48,837
Construction in progress	937,762	564,634
Inventory, land	143,770	266,128
Homes held for resale	121,140	50,710
Investments	-	200,037
Property and equipment, net	1,981,661	543,541
Total assets	\$ 6,584,329	\$ 4,877,702

L I A B I L I T I E S A N D N E T A S S E T S

LIABILITIES:		
Accounts payable	\$ 124,747	\$ 117,854
Accrued expenses	36,085	36,202
Contingent interest rate swap agreement liability (Note 9)	87,992	-
Escrow deposits	120,239	125,864
Debt	3,164,155	1,567,118
Total liabilities	3,533,218	1,847,038

COMMITMENTS AND CONTINGENCIES (Note 10)	-	-
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NET ASSETS:		
Unrestricted	2,478,821	2,844,085
Temporarily restricted	572,290	186,579
Total net assets	3,051,111	3,030,664
Total liabilities and net assets	\$ 6,584,329	\$ 4,877,702

The accompanying notes to combined financial statements are an integral part of these statements.

**HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENTS OF ACTIVITIES
For the Years Ended June 30, 2010 and 2009**

	2010	2009
UNRESTRICTED NET ASSETS:		
Support:		
Sale of donated merchandise	\$ 695,877	\$ 752,433
Contributions	177,597	634,375
In-kind contributions	162,811	109,384
Governmental grants	-	1,898
Special events	24,446	7,051
	<u>1,060,731</u>	<u>1,505,141</u>
 Revenue:		
Program service revenue:		
Home sold, net of mortgage discounts of \$ 493,335 and \$ 545,527 in 2010 and 2009, respectively	559,665	634,473
Discount amortization	115,853	120,990
Other	32,875	77,381
Interest income	3,163	19,453
Unrealized loss on investment	-	(58)
Loss on disposal of equipment	-	(7,012)
	<u>711,556</u>	<u>845,227</u>
 Satisfaction of program restrictions releasing temporarily restricted net assets	<u>619,914</u>	<u>650,047</u>
 Total support, revenue and release of temporarily restricted net assets	<u>2,392,201</u>	<u>3,000,415</u>
 Expenses:		
Program services	1,414,075	1,580,640
Supporting services:		
Restore	631,572	477,217
Management and general	366,856	252,294
Thrift store	171,008	153,022
Fundraising	173,954	87,747
	<u>1,343,390</u>	<u>970,280</u>
 Total expenses	<u>2,757,465</u>	<u>2,550,920</u>
 Change in unrestricted net assets	<u>(365,264)</u>	<u>449,495</u>
 TEMPORARILY RESTRICTED NET ASSETS:		
Contributions	1,025,625	1,120,682
Write-down of donated land to realizable value (Note 7)	(20,000)	(792,000)
Net assets released from donor restrictions	(619,914)	(650,047)
	<u>385,711</u>	<u>(321,365)</u>
 Change in temporarily restricted net assets	<u>385,711</u>	<u>(321,365)</u>
 Change in net assets	<u>20,447</u>	<u>128,130</u>
 NET ASSETS, July 1	<u>3,030,664</u>	<u>2,902,534</u>
 NET ASSETS, June 30	<u>\$ 3,051,111</u>	<u>\$ 3,030,664</u>

The accompanying notes to combined financial statements are an integral part of these statements.

**HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2010**

	Supporting Services					Total Supporting Services	Total
	Program Services	Restore	Management and General	Thrift Store	Fundraising		
PERSONNEL COSTS:							
Salaries and contractors	\$ 311,777	\$ 209,372	\$ 214,906	\$ 75,566	\$ 101,710	\$ 601,554	\$ 913,331
Employee benefits and taxes	<u>39,791</u>	<u>28,739</u>	<u>29,293</u>	<u>9,899</u>	<u>9,347</u>	<u>77,278</u>	<u>117,069</u>
Subtotal	<u>351,568</u>	<u>238,111</u>	<u>244,199</u>	<u>85,465</u>	<u>111,057</u>	<u>678,832</u>	<u>1,030,400</u>
OTHER EXPENSES:							
Home construction costs	860,147	-	-	-	-	-	860,147
Rent	7,659	170,108	7,876	983	3,366	182,333	189,992
Professional fees	7,502	375	19,673	2,244	3,094	25,386	32,888
Office expense	12,187	4,374	7,971	3,212	15,261	30,818	43,005
Interest	11,058	106,640	11,589	21,229	-	139,458	150,516
Repairs and maintenance	21,407	13,151	8,049	6,375	5,043	32,618	54,025
Insurance expense	54,539	6,792	12,544	4,583	1,276	25,195	79,734
Volunteer/education expense	24,490	1,611	2,504	538	2,982	7,635	32,125
Utilities	3,894	20,071	1,895	9,717	632	32,315	36,209
Promotional	710	26,714	-	7,458	525	34,697	35,407
Travel	17,191	9,096	5,568	1,535	3,380	19,579	36,770
Tithe and contribution	15,000	120	3,400	-	-	3,520	18,520
Allowance for uncollectible accounts	-	-	29,320	-	-	29,320	29,320
Telephone	6,831	4,375	2,910	4,264	1,769	13,318	20,149
Fundraising expense	-	-	-	-	21,653	21,653	21,653
Taxes and licenses	1,089	774	648	1,205	375	3,002	4,091
Miscellaneous	2,573	9,787	4,979	1,294	3,541	19,601	22,174
Special events	-	227	-	-	-	227	227
Casual labor	-	-	-	914	-	914	914
Subtotal	<u>1,046,277</u>	<u>374,215</u>	<u>118,926</u>	<u>65,551</u>	<u>62,897</u>	<u>621,589</u>	<u>1,667,866</u>
Total expenses before provision for depreciation	1,397,845	612,326	363,125	151,016	173,954	1,300,421	2,698,266
Provision for depreciation	<u>16,230</u>	<u>19,246</u>	<u>3,731</u>	<u>19,992</u>	<u>-</u>	<u>42,969</u>	<u>59,199</u>
Total expenses	<u>\$ 1,414,075</u>	<u>\$ 631,572</u>	<u>\$ 366,856</u>	<u>\$ 171,008</u>	<u>\$ 173,954</u>	<u>\$ 1,343,390</u>	<u>\$ 2,757,465</u>

The accompanying notes to combined financial statements are an integral part of these statements.

**HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENT OF FUNCTIONAL EXPENSES
For the Year Ended June 30, 2009**

	Supporting Services					Total Supporting Services	Total
	Program Services	Restore	Management and General	Thrift Store	Fundraising		
PERSONNEL COSTS:							
Salaries and contractors	\$ 290,347	\$ 178,593	\$ 191,854	\$ 63,399	\$ 70,131	\$ 503,977	\$ 794,324
Employee benefits and taxes	<u>37,653</u>	<u>20,907</u>	<u>23,470</u>	<u>6,634</u>	<u>7,423</u>	<u>58,434</u>	<u>96,087</u>
Subtotal	<u>328,000</u>	<u>199,500</u>	<u>215,324</u>	<u>70,033</u>	<u>77,554</u>	<u>562,411</u>	<u>890,411</u>
OTHER EXPENSES:							
Home construction costs	947,985	-	-	-	-	-	947,985
Rent	11,174	200,454	11,143	-	-	211,597	222,771
Professional fees	63,590	875	3,649	875	-	5,399	68,989
Office expense	22,757	13,954	4,502	4,244	1,100	23,800	46,557
Interest	24,832	-	-	17,075	-	17,075	41,907
Repairs and maintenance	24,344	15,271	1,992	3,857	81	21,201	45,545
Insurance expense	25,981	5,876	1,258	6,885	-	14,019	40,000
Volunteer/education expense	28,788	1,284	3,049	1,609	1,059	7,001	35,789
Utilities	3,422	13,227	1,684	8,557	-	23,468	26,890
Promotional	16,608	7,632	-	4,038	37	11,707	28,315
Travel	17,369	9,392	3,171	1,654	654	14,871	32,240
Tithe and contribution	25,200	-	-	-	-	-	25,200
Telephone	7,338	3,436	2,988	4,387	556	11,367	18,705
Fundraising expense	-	-	-	-	6,592	6,592	6,592
Taxes and licenses	13,778	77	86	994	-	1,157	14,935
Miscellaneous	12,630	1,457	93	1,074	114	2,738	15,368
Casual labor	-	40	-	3,929	-	3,969	3,969
Subtotal	<u>1,245,796</u>	<u>272,975</u>	<u>33,615</u>	<u>59,178</u>	<u>10,193</u>	<u>375,961</u>	<u>1,621,757</u>
Total expenses before provision for depreciation	1,573,796	472,475	248,939	129,211	87,747	938,372	2,512,168
Provision for depreciation	<u>6,844</u>	<u>4,742</u>	<u>3,355</u>	<u>23,811</u>	<u>-</u>	<u>31,908</u>	<u>38,752</u>
Total expenses	<u>\$ 1,580,640</u>	<u>\$ 477,217</u>	<u>\$ 252,294</u>	<u>\$ 153,022</u>	<u>\$ 87,747</u>	<u>\$ 970,280</u>	<u>\$ 2,550,920</u>

The accompanying notes to combined financial statements are an integral part of these statements.

**HABITAT FOR HUMANITY OF PALM BECH COUNTY, INC.
AND HABITAT RESTORE, INC.
COMBINED STATEMENTS OF CASH FLOWS
For the Years Ended June 30, 2010 and 2009**

	2010	2009
CASH FLOW FROM OPERATING ACTIVITIES:		
Change in net assets	\$ 20,447	\$ 128,130
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Provision for depreciation	59,199	38,752
Provision for amortization of mortgage discount	(115,853)	(120,990)
Provision for amortization of prepaid interest on mortgages sold	5,437	9,966
Provision for uncollectible accounts	29,320	-
Donated property held as construction in progress	(116,000)	-
Loss on disposition of property and equipment	-	7,012
Unrealized loss on investment	-	58
Construction in progress conveyed in exchange for mortgage receivables	(295,173)	(344,473)
Changes in assets and liabilities:		
(Increase) decrease in unconditional promises to give	(318,069)	228,225
(Increase) decrease in other receivables	358	1,362
(Increase) decrease in prepaids and other assets	9,667	(5,930)
(Increase) decrease in inventory, land	122,358	(2,731)
(Increase) decrease in homes held for resale	(10,030)	(4,000)
(Increase) decrease in construction in progress	(257,128)	(161,513)
Increase (decrease) in accounts payable	6,893	84,262
Increase (decrease) in accrued expenses	(117)	6,648
Increase (decrease) in interest rate swap agreement liability	87,992	-
Increase (decrease) in escrow deposits	(5,625)	11,581
Net cash used in operating activities	(776,324)	(123,641)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Proceeds from sale of investments	200,037	-
Payments received on mortgage receivables	188,624	228,264
Purchases of property and equipment	(477,319)	(34,277)
Net cash provided by (used in) investing activities	(88,658)	193,987
CASH FLOWS FROM FINANCING ACTIVITIES:		
Proceeds from debt	677,688	518,175
Repayments on debt	(106,088)	(590,729)
Net cash provided by (used in) financing activities	571,600	(72,554)
Net decrease in cash and cash equivalents	(293,382)	(2,208)
CASH AND CASH EQUIVALENTS, beginning of the year	1,367,825	1,370,033
CASH AND CASH EQUIVALENTS, end of the year	\$ 1,074,443	\$ 1,367,825

The accompanying notes to combined financial statements are an integral part of these statements.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 1 - ORGANIZATION AND OPERATIONS

Habitat for Humanity of Palm Beach County, Inc. (the "Organization") was founded in October 1986 as a nonprofit ecumenical Christian housing ministry affiliated with Habitat for Humanity International, Inc., an organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, the Organization builds simple decent houses with the help of low-income homeowner families. The Organization focuses its efforts in areas of West Palm Beach, Jupiter and western communities in the Glades area, Florida. Habitat Restore, Inc. (the "Restore") is a not-for-profit tax exempt organization which holds the lease agreement for the building currently occupied by the Restore and the Organization's office (Note 10).

The accompanying combined financial statements include the accounts of the Organization and the Restore. They are presented on a combined basis as the two organizations share the same management team, contain common board members and are financially interrelated. All intercompany balances and transactions are eliminated on a combined basis.

The houses built by the Organization and its volunteers are sold to partner families at no profit, financed with affordable, no-interest loans. The homeowner's monthly mortgage payments go into a revolving fund that is used to build more houses. In addition to a down payment and the monthly mortgage payment, each homeowner family invests hundreds of hours of their own labor into the building of their house as well as the houses of others.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Organization and Restore are described below to enhance the usefulness of the combined financial statement to the reader.

Basis of accounting:

The combined financial statements are prepared on the accrual basis of accounting. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred. Revenues from the sale of houses are recognized at the transfer to the homeowner. Construction costs are capitalized and carried as an asset until the property is completed and sold.

Basis of presentation:

The Organization follows the recommendation of the Financial Accounting Standards Board (FASB) standards of accounting and financial reporting for not-for-profit organizations. Under the Accounting Standards Codification (ASC) 958-205, *Not-for-Profit Entities; Presentation of Financial Statements* (formerly SFAS No. 117), net assets and revenues, expenses, gains, and losses are classified depending on the existence and/or nature of any donor-imposed restrictions. Accordingly, the Organization reports information regarding its financial position and activities based on three classes of net assets as follows:

Unrestricted net assets - net assets not subject to donor-imposed stipulations.

Temporarily restricted net assets - Net assets subject to donor-imposed stipulations that will be met either by actions of the Organization and/or the passage of time. The Organization had temporarily restricted net assets of \$ 572,290 and \$ 186,579 at June 30, 2010 and 2009, respectively (Note 12).

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Permanently restricted net assets - Net assets subject to donor-imposed stipulations that will be permanently restricted. The Organization had no permanently restricted net assets at June 30, 2010 and 2009.

Use of estimates:

The presentation of the combined 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 financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Contributions of long-lived assets:

Contributions of land, building and equipment without donor stipulations concerning the use of such long-lived assets are reported as revenues of the unrestricted net asset class. Contributions of cash or other assets to be used to acquire equipment with such donor stipulations are reported as revenues of the temporarily restricted net asset class; the restrictions are considered to be released at the time of acquisition of such long-lived assets.

Cash equivalents:

For purposes of the combined financial statements, the Organization considers all liquid investments having initial maturities of three (3) months or less to be cash equivalents

Investments:

Investments at June 30, 2009 are comprised of equity certificates of deposit. Investments are measured at fair value in the statements of financial position based on publicly quoted prices or other means.

Land, finished homes, construction in progress building and depreciation:

Land for construction, finished homes and construction in progress are carried at cost or at market value when acquired by gift. Donated land is written down to realizable value. No depreciation is charged against these assets as they are being held for resale. Construction equipment is carried at cost or at market value when acquired by gift. Depreciation is provided on a straight-line basis over the estimated useful lives of the respective assets, which are generally three to thirty-nine years.

Maintenance and repairs to property and equipment are charged to expense when incurred. Additions and major renewals are capitalized.

Restricted and unrestricted revenue and support:

Contributions received are recorded as unrestricted, temporarily restricted or permanently restricted support, depending on the existence and/or nature of any donor restrictions. Donated goods to the thrift stores are recorded when sold.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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 statement of activities as net assets released from restriction.

Promises to give:

Unconditional promises to give are recognized as revenues or gains in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Uncollectible promises to give are expected to be insignificant based on historical experience and management believes no allowance for uncollectible promises to give is considered necessary. As of June 30, 2010 and 2009, the Organization had \$ 361,000 and \$ 42,931, respectively, in unconditional promises to give and no conditional promises to give.

Functional expenses:

Program and supporting services are charged with their direct expenses. Other expenses are allocated based on their proportionate share of total expenses.

Date of management review:

Subsequent events have been evaluated through November 16, 2010, which is the date the financial statements were available to be issued.

NOTE 3 - FAIR VALUE MEASUREMENTS

In accordance with the Financial Accounting Standards Board in its Accounting Standards Codification (ASC) No. 820, *Fair Value Measurements and Disclosures* (formerly SFAS No. 157), the Organization provides certain disclosures based on a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. ASC No. 820 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between willing market participants at the measurement date. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical asset or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements).

The inputs or methodologies used for valuing securities are not necessarily an indication of the risk associated with investing in those securities. The three levels of the fair value hierarchy are as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical investments that the entity has the ability to access at the measurement date.
- Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the investments, either directly or indirectly.
- Level 3 inputs are unobservable inputs for the investments.

HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2010 and 2009

NOTE 3 – FAIR VALUE MEASUREMENTS (continued)

The level in the fair value hierarchy within which a fair measurement in its entirety falls is based on the lowest level input that is significant to the fair value measurement in its entirety.

The following table represents the investments as held by the Organization at June 30, 2009:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total 2009</u>
ASSET CLASS:				
Certificates of Deposit	\$ <u>-</u>	\$ <u>200,037</u>	\$ <u>-</u>	\$ <u>200,037</u>
Total	\$ <u>-</u>	\$ <u>200,037</u>	\$ <u>-</u>	\$ <u>200,037</u>

NOTE 4 - DONATIONS OF ASSETS, MATERIALS AND SERVICES

Donated assets are valued at the estimated fair-market value at the date of receipt. Donated services are recognized as revenue only if the service requires specific expertise and is provided by professionals. Volunteers have also donated significant amounts of time in building the houses; however, such services have not been recognized as revenue. During the year ended June 30, 2010, the Organization recorded \$ 116,000 in donated construction in progress, \$ 30,082 in donated professional services, and \$ 16,729 in donated materials. During the year ended June 30, 2009, the Organization recorded \$ 101,368 in donated professional services and \$ 8,016 in donated materials.

NOTE 5 - MORTGAGE NOTES RECEIVABLE

When the Organization sells a home, it accepts two installment notes in return. The first is an interest-free monthly installment note generally issued to recover the costs of construction for a term of 15 to 30 years with principal payments due monthly.

The second note is a trust deed. It is interest-free and for a similar term of years as the first note. It is issued to ensure that the homeowner will not transfer, sell or assign their title of interest in the property or to cease to occupy the property within a relatively short period of time. The second note is forgiven upon repayment of the first note. The second note and its resulting contingent gain is not recorded on either the statements of financial position or the statements of activities. An estimate of the gain on the second trust deed cannot be made. It is unlikely that any gain will be realized.

The mortgage notes receivable are recorded at the face amount less the unamortized discount. The discount rate for June 30, 2010 and 2009 is 7.81% and 7.77%, respectively. The Organization has recorded an allowance for doubtful accounts of \$ 29,320 for the year ended June 30, 2010 and no allowance was considered necessary for the year ended June 30, 2009.

**HABITAT FOR HUMANITY OF PALM BEACH COUNTY, INC.
AND HABITAT RESTORE, INC.
NOTES TO COMBINED FINANCIAL STATEMENTS
June 30, 2010 and 2009**

NOTE 5 - MORTGAGE NOTES RECEIVABLE (continued)

The outstanding balances are as follows:

	<u>2010</u>	<u>2009</u>
Mortgage notes	\$ 4,709,855	\$ 4,253,360
Unamortized discounts	(2,755,152)	(2,460,659)
Allowance for uncollectible accounts	<u>(29,320)</u>	<u>-</u>
	<u>\$ 1,925,383</u>	<u>\$ 1,792,701</u>

The discounts are amortized over its corresponding mortgage note term and is included in program service revenue in the financial statements.

NOTE 6 - CONSTRUCTION IN PROGRESS

Construction in progress of \$ 937,762 and \$ 564,634 for the years ended June 30, 2010 and 2009 respectively, represents the accumulated cost of houses under construction and land improvements. At June 30, 2010 and 2009, houses under construction consisted of the direct material and labor cost incurred on twenty-three (23) and eleven (11) homes, respectively. Upon completion of construction, the houses will be sold to prequalified families who have invested hours of their own labor into the construction of the houses.

NOTE 7 - LAND INVENTORY

Land inventory of \$ 143,770 and \$ 266,128 at June 30, 2010 and 2009, respectively, includes purchased parcels of land to be used for future construction of homes. Land inventory is reduced when parcels are sold or when construction begins and the parcels are transferred to construction in progress. Donated land is tracked by lot numbers but is written down to realizable value in the financial statements because the Organization does not include the value of the land in the purchase price for their clients in order to make housing affordable for low-income families.

NOTE 8 - PROPERTY AND EQUIPMENT

Property and equipment used in operations consists of the following:

	<u>2010</u>	<u>2009</u>
Buildings and improvements	\$ 1,890,281	\$ 485,635
Land	75,000	75,000
Vehicles	129,936	58,772
Machinery and equipment	36,862	24,407
Furniture and fixtures	23,396	16,341
Leasehold improvements	23,553	23,553
Software	2,000	-
Less accumulated depreciation	<u>(199,367)</u>	<u>(140,167)</u>
Total property and equipment used in operations	<u>\$ 1,981,661</u>	<u>\$ 543,541</u>

Depreciation expense for the years ended June 30, 2010 and 2009 totaled \$59,199 and \$ 38,752, respectively.

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NOTE 9 - DEBT

During the prior and current year, the Organization entered into repurchase agreements which provided for the sale of certain mortgage receivables with full recourse to certain banks. The agreements contain several provisions including a default clause, where the Organization will repurchase the principal amount of any defaulted mortgage at the same percentage discount (90%), if applicable, used when the mortgage was originally sold to the bank.

Debt consists of the following:

	2010	2009
Mortgage payable to a bank secured by real property. It provides for a variable interest rate based on LIBOR plus 3.25% (3.60% at June 30, 2010) payable in monthly principal and interest installments with principal amounts ranging from \$ 1,998 to \$ 3,779 through March 2020.	\$ 1,014,004	\$ --
Repurchase agreement payable to a bank. This agreement is payable monthly at \$ 3,914 through June 2014 and at lesser amounts thereafter through 2036 (net of unamortized discount of \$ 108,335 and \$ 113,772 at June 30, 2010 and 2009, respectively).	966,526	1,020,930
Repurchase agreement payable to a bank. This agreement is payable monthly at \$ 1,930 through June 2028 and at lesser amounts thereafter through 2038.	596,778	--
Revolving line of credit of \$ 1,250,000 to a bank secured by residential lots. It provides for monthly payments of interest only at the prime rate but never less than 6.0% (6.0% at June 30, 2010 and 2009) and matures on December 31, 2010.	302,163	232,964
Mortgage payable to a bank secured by real property. It provides for monthly payments of \$ 3,007 with a fixed interest rate of 7.10% and matures in May 2022.	284,684	299,537
Revolving line of credit of \$ 445,000 to a bank secured by residential lots. It provides for monthly payments of interest only at the prime rate (3.25% at June 30, 2009) and matures in October 2010.	--	10,280
Note payable to a finance company secured by a vehicle. It provided for monthly payments of \$ 503 with a fixed interest rate of 8.00% and matured in March 2010.	--	3,407
	\$ 3,164,155	\$ 1,567,118

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NOTE 9 - DEBT (continued)

In conjunction with the \$ 1,014,004 mortgage note payable on the previous page, the Organization entered into an interest rate swap agreement effectively converting the variable rate debt to a fixed rate debt to the extent of the notional amount. For the notional principal amount of \$ 1,014,004, the fixed rate being paid to the bank is 7.10%, while the payment received from the bank is 3.60% as of June 30, 2010. The interest differential is reflected as an adjustment to interest expense as incurred. The fair value (obligation) of the swap is based on a quote obtained from the primary financial lender, which was quoted at \$ (87,992) as of June 30, 2010 and is included on the statement of financial position. This negative value would have been incurred had the Organization elected to close this transaction at June 30, 2010. However, it is management's intention to carry this transaction through maturity.

Interest expense for the four months ended June 30, 2010 in connection with this debt and interest rate swap agreement amounted to approximately \$ 24,700.

In connection with this mortgage note payable, the Organization's agreement contains a number of restrictive covenants. Among other provisions, the agreement requires a minimum debt service coverage ratio of 1.05 times to 1.00. At June 30, 2010, the Organization was not in compliance with the minimum debt service coverage ratio, however, the Organization did obtain a waiver from the lender.

Future maturities of debt, including the unamortized discount on the repurchase agreement of \$ 108,335 and \$ 113,772, for 2010 and 2009 respectively, are approximately as follows:

<u>Year Ending June 30,</u>	<u>2010</u>	<u>2009</u>
2010	\$ -	\$ 71,800
2011	\$ 414,400	\$ 312,800
2012	\$ 115,200	\$ 70,700
2013	\$ 118,400	\$ 72,000
2014	\$ 121,900	\$ 73,400
2015	\$ 124,500	\$ 96,300
Thereafter	\$ 2,269,800	\$ 870,100

NOTE 10 – COMMITMENTS AND CONTINGENCIES

Lease commitment

The Restore previously entered into a five-year non-cancelable operating lease for its thrift store facility and the Organization's office. Rent expense, including common area maintenance for the years ending June 30, 2010 and 2009 was \$ 189,009 and \$ 222,771, respectively. The Organization has successfully negotiated early termination of this lease agreement to end the Organization's commitment at December 31, 2010. The Organization has prepaid the last two months of the newly negotiated lease as required per the amended agreement.

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NOTE 10 – COMMITMENTS AND CONTINGENCIES (continued)

Lease commitment (continued)

Subsequent to year end, the Organization has entered into a three-year non-cancelable operating lease for their new office location. (See Note 14).

During the year ended June 30, 2010, the Organization entered into a four-year non-cancelable operating lease with a telecommunications company for the Organization’s Restore location. The lease requires payments of \$ 560 per month through April 2014.

The following are approximate future minimum base lease payments, excluding common area maintenance, in connection with the leases in effect at June 30, 2010:

<u>Year Ending June 30,</u>	<u>2010</u>	<u>2009</u>
2010	\$ -	\$ 151,900
2011	\$ 55,320	\$ 145,100
2012	\$ 6,720	\$ -
2013	\$ 6,720	\$ -
2014	\$ 5,040	\$ -
Thereafter	\$ -	\$ -

Contingencies

The Organization previously entered into a grant agreement with Palm Beach County (the “County”). Under the terms of the agreement the County loaned the Organization \$ 750,000 with no required repayment if the Organization constructs nineteen (19) homes for eligible extremely low and very low income households and conveys these homes to eligible households with the required declaration of restrictive covenants being executed and recorded. These events must take place before June 30, 2011 or repayment will be immediately due and payable at the rate of \$ 39,474 per unit uncompleted or unconveyed to an eligible household. As of June 30, 2010, the Organization is in the process of completing the platting. The County has indicated that they will grant an extension of time, if needed.

The County previously conveyed 27 lots to the Organization. The Organization must complete the construction of all improvements on the lots and shall convey the land associated with each improved lot to a county approved homeowner at no cost to such homeowner. If the Organization does not complete the construction of a single family detached dwelling on the lot, convey such dwelling, land and improvements to applicants approved by the county by March 31, 2011, then the Organization shall convey the lot back to the County or pay the County an amount equal to the current appraised value. As of June 30, 2010, 15 homes have closed.

NOTE 11 - INCOME TAXES

Habitat for Humanity of Palm Beach County, Inc. and Habitat Restore, Inc. are nonprofit organizations exempt from tax under Internal Revenue Code Section 501(c)(3); therefore, no tax provision has been made in the accompanying combined financial statements.

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NOTE 12 - TEMPORARILY RESTRICTED ASSETS

At June 30, 2010 and 2009, temporarily restricted net assets consisting of cash and cash equivalents and unconditional promises to give are available for the following purposes:

	<u>2010</u>	<u>2009</u>
Cost for construction of homes	\$ 211,290	\$ 143,648
Unconditional promises to give	<u>361,000</u>	<u>42,931</u>
	<u>\$ 572,290</u>	<u>\$ 186,579</u>

NOTE 13 - SUPPLEMENTAL CASH FLOW INFORMATION

Supplemental disclosure of cash flow information:

	<u>2010</u>	<u>2009</u>
Cash received during the year for - Interest	\$ <u>3,163</u>	\$ <u>19,095</u>
Cash paid during the year for - Interest	\$ <u>56,324</u>	\$ <u>51,873</u>
Noncash Operating Activities:		
Acquisition of property and equipment - Cost of property and equipment	\$ 1,497,319	\$ 34,277
Less property and equipment financed	<u>(1,020,000)</u>	<u>-</u>
Cash paid for property and equipment	<u>\$ 477,319</u>	<u>\$ 34,277</u>
Homes repossessed during the year and classified as homes held for resale	<u>\$ 60,400</u>	<u>\$ 46,710</u>

NOTE 14 - SUBSEQUENT EVENT

On July 13, 2010, the Organization entered into a three-year non-cancelable operating lease for a new office location. The lease requires base rent of \$ 24,000 from August 1, 2010 through July 31, 2011. The base rent will increase 3% on August 1, 2011 and 5% in any subsequent years. The lease provides for one additional one year period.