

FINANCIAL REPORT

**HABITAT FOR HUMANITY
OF SAN ANTONIO, INC.**

DECEMBER 31, 2010 AND 2009

Carneiro, Chumney & Co., L.C.

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CERTIFIED PUBLIC ACCOUNTANTS

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May 24, 2011

The Finance Committee
Habitat for Humanity of San Antonio, Inc.
311 Probandt
San Antonio, TX 78204-1745

Dear Finance Committee:

We have audited the financial statements of Habitat for Humanity of San Antonio, Inc. (Habitat) for the year ended December 31, 2010, and have issued our report thereon dated May 24, 2011. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our letter to you dated November 16, 2010. Professional standards also require that we communicate to you the following information related to our audit.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by Habitat are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2010. We noted no transactions entered into by Habitat during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the financial statements were Management's estimate of depreciation, based on the historical cost of fixed assets and their estimated useful life. We evaluated the key factors used to develop the depreciation expense estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate of the amortization expense is based on the difference between the face amount of the notes receivable and their present value as well as the life of the notes. We evaluated the key factors and assumptions used to develop the estimate of amortization expense in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. No such misstatements were noted.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 24, 2011.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to Habitat's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Habitat's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of Finance Committee, Board Members, and management of Habitat for Humanity of San Antonio, Inc., and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,


CARNEIRO, CHUMNEY & CO., L.C.

RMM:jtd
Enclosures

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Carneiro, Chumney & Co., L.C.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To The Board of Directors
Habitat for Humanity of San Antonio, Inc.
San Antonio, Texas

We have audited the accompanying Statements of Financial Position of Habitat for Humanity of San Antonio, Inc. (Habitat) as of December 31, 2010 and 2009, the related Statement of Activities for the year ended December 31, 2010 (with summarized financial information for 2009), and the related Statements of Functional Expenses and Cash Flows for the years ended December 31, 2010 and 2009. These financial statements are the responsibility of Habitat's management. Our responsibility is to express an opinion on these financial statements based on our audits. The prior year summarized comparative information on the Statement of Activities has been derived from Habitat's 2009 financial statements and, in our report dated May 17, 2010, we expressed an unqualified opinion on those financial statements.

We conducted our audits in accordance with United States generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of San Antonio, Inc., as of December 31, 2010 and 2009, the changes in its net assets for the year ended December 31, 2010, and its cash flows for the years ended December 31, 2010 and 2009, in conformity with United States generally accepted accounting principles.



May 24, 2011

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HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2010 AND 2009

	2010	2009
ASSETS		
Cash:		
Operating	\$ 5,122,697	\$ 5,213,006
Contingency fund	643,727	645,464
Total Cash	<u>5,766,424</u>	<u>5,858,470</u>
Deposits held in custody for homeowners	290,700	302,724
Accounts Receivable:		
Contributions	130,565	144,720
Grants	18,510	285,844
Unrelated business income tax refund	47,393	--
Other	10,146	8,505
Total Accounts Receivable	<u>206,614</u>	<u>439,069</u>
Prepaid expenses	58,078	1,198
Inventory	1,404,142	1,132,168
Mortgage notes receivable, net of unamortized discounts of \$6,697,643 for 2010 and \$6,069,620 for 2009	6,763,683	6,045,424
Land held for future development	1,161,378	411,746
Homes under construction or held for sale	345,946	195,397
Property and equipment, net	<u>4,359,577</u>	<u>4,516,626</u>
TOTAL ASSETS	<u><u>\$ 20,356,542</u></u>	<u><u>\$ 18,902,822</u></u>
LIABILITIES AND NET ASSETS		
Liabilities:		
Accounts payable	\$ 269,797	\$ 104,299
Accrued expenses	317,024	325,489
Deposits held in custody for homeowners	290,700	302,724
Non-refundable deposits for prospective homeowners	47,590	51,603
Notes payable	1,404,856	1,539,645
Unrelated business income tax liability	--	14,870
Total Liabilities	<u>2,329,967</u>	<u>2,338,630</u>
Net Assets:		
Unrestricted:		
Operating	3,652,419	3,912,204
Land, inventory, and homes under construction or held for sale	2,911,466	1,739,311
Mortgages	6,763,683	6,045,424
Property and equipment	4,359,577	4,516,626
Total Unrestricted	<u>17,687,145</u>	<u>16,213,565</u>
Temporarily restricted	339,430	350,627
Total Net Assets	<u>18,026,575</u>	<u>16,564,192</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>\$ 20,356,542</u></u>	<u><u>\$ 18,902,822</u></u>

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

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2010

(With Summarized Financial Information for the Year Ended 2009)

	2010			2009 Total
	Unrestricted	Temporarily Restricted	Total	
Revenue, Gains, and Other Support:				
Sales of homes	\$ 3,070,409	--	3,070,409	\$ 3,108,270
Contributions	1,329,774	239,500	1,569,274	1,673,303
Donated homes, land, construction materials, and supplies	301,162	--	301,162	166,424
Grants	642,389	--	642,389	1,174,672
Net sales of donated goods	985,705	--	985,705	1,063,651
Net sales of purchased goods	531,586	--	531,586	670,974
Interest income (including late fees)	26,878	--	26,878	32,331
Mortgage discount amortization	320,593	--	320,593	319,506
Miscellaneous	14,827	--	14,827	8,991
(Loss) on disposal of property and equipment	--	--	--	(208)
Gain on sale or repurchase of mortgages	--	--	--	15,998
Net Assets Released from Restrictions –				
Satisfaction of program restrictions	250,697	(250,697)	--	--
Total Revenue, Gains, and Other Support	7,474,020	(11,197)	7,462,823	8,233,912
Expenses:				
Program	5,131,533	--	5,131,533	5,600,123
Management and general	419,772	--	419,772	446,165
Fundraising (includes unrelated business income tax)	449,135	--	449,135	501,659
Total Expenses	6,000,440	--	6,000,440	6,547,947
Change in Net Assets	1,473,580	(11,197)	1,462,383	1,685,965
Net assets, beginning of year	16,213,565	350,627	16,564,192	14,878,227
NET ASSETS, END OF YEAR	\$ 17,687,145	339,430	18,026,575	\$ 16,564,192
Composition of Unrestricted Net Assets:				
Operating	\$ 3,652,419			\$ 3,912,204
Land, inventory, and homes under construction or held for sale	2,911,466			1,739,311
Mortgages	6,763,683			6,045,424
Property and equipment	4,359,577			4,516,626
	\$ 17,687,145			\$ 16,213,565

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

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010				2009			
	Program	Management and General	Fundraising	Total	Program	Management and General	Fundraising	Total
Salaries and Related Expenses:								
Salaries	\$ 863,048	191,596	129,409	\$ 1,184,053	\$ 875,824	201,234	161,510	\$ 1,238,568
Payroll taxes and benefits	224,671	51,247	32,451	308,369	185,172	68,080	34,727	287,979
Total Salaries and Related Expenses	1,087,719	242,843	161,860	1,492,422	1,060,996	269,314	196,237	1,526,547
Other Expenses:								
Cost of Homes Sold:								
Building materials & services	2,255,433	--	--	2,255,433	2,099,785	--	--	2,099,785
Land used	242,540	--	--	242,540	389,383	--	--	389,383
Land development for future homes	170,480	--	--	170,480	531,372	--	--	531,372
Discount on mortgages issued	948,616	--	--	948,616	1,144,175	--	--	1,144,175
Legal fees	--	72,528	--	72,528	--	52,297	--	52,297
Accounting fees	--	11,225	--	11,225	--	8,732	--	8,732
Lobbying	--	--	--	--	--	18,500	--	18,500
Fundraising services	--	--	78,708	78,708	--	--	53,022	53,022
Mortgage and title fees	58,086	--	--	58,086	21,617	--	--	21,617
Professional fees - other	975	12,500	--	13,475	--	2,511	--	2,511
Advertising and promotions	68,926	223	13,247	82,396	94,987	845	12,261	108,093
Office expense, phones, and walkies	18,937	34,650	1,474	55,061	15,389	38,358	2,143	55,890
Printing and publications	31,508	2,837	5,090	39,435	29,529	3,978	709	34,216
Postage and freight	19,545	1,320	1,722	22,587	16,600	1,421	2,013	20,034
Information technology	21,748	17,093	3,161	42,002	12,029	23,975	844	36,848
Travel and auto	26,535	606	1,021	28,162	26,449	711	2,165	29,325
Conferences, meetings and training	4,383	6,044	1,064	11,491	8,641	6,537	2,212	17,390
Tithes to other non-profits	54,095	--	--	54,095	31,775	--	--	31,775
Insurance	62,448	1,172	447	64,067	47,255	1,672	529	49,456
Volunteer expenses	22,804	--	--	22,804	28,965	--	--	28,965
Miscellaneous	5,973	141	803	6,917	4,774	2,569	901	8,244
Total Expenses before Depreciation and Taxes	5,100,751	403,182	268,597	5,772,530	5,563,721	431,420	273,036	6,268,177
Depreciation expense	30,782	16,590	139	47,511	36,402	14,745	832	51,979
Unrelated business income taxes	--	--	180,399	180,399	--	--	227,791	227,791
TOTAL FUNCTIONAL EXPENSES	\$ 5,131,533	419,772	449,135	\$ 6,000,440	\$ 5,600,123	446,165	501,659	\$ 6,547,947
Percent of functional expense to total	85.5%	7.0%	7.5%	100.0%	85.5%	6.8%	7.7%	100.0%

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

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2010 AND 2009

	2010	2009
Cash Flows from Operating Activities:		
Change in net assets	\$ 1,462,384	\$ 1,685,965
Adjustments to Reconcile Change in Net Assets to Cash Provided by Operating Activities:		
Loss on disposal of property and equipment	--	208
(Gain) on sale or repurchase of mortgages	--	(15,998)
Depreciation	212,684	216,340
Discount on mortgages issued	948,616	1,144,175
Mortgage discount amortization	(320,593)	(319,506)
Decrease (Increase) in:		
Accounts receivable:		
Contributions	14,155	(22,050)
Grants	267,334	33,048
Unrelated business income tax	(47,393)	26,729
Other	(1,642)	(696)
Prepaid expenses	(56,880)	(936)
Inventory	(271,974)	(131,807)
Land held for future development	(991,697)	(171,259)
Homes under construction or held for sale	(345,946)	(195,397)
Increase (Decrease) in:		
Accounts payable	165,498	(67,468)
Accrued expenses	(8,465)	19,985
Non-refundable deposits for prospective homeowners	(4,013)	917
Unrelated business income taxes liability	(14,870)	14,870
Total Adjustments	<u>(455,186)</u>	<u>531,155</u>
Net Cash Provided by Operating Activities	1,007,198	2,217,120
Cash Flows from Investing Activities:		
New mortgage notes issued	(1,741,275)	(1,774,194)
Principal payments received on mortgage notes	910,236	897,368
Repurchase of mortgage from bank	(77,781)	(27,839)
Purchase of property and equipment	(55,635)	(82,456)
Net Cash (Used in) Investing Activities	<u>(964,455)</u>	<u>(987,121)</u>
Cash Flows (Used in) Financing Activities –		
Principal payments on notes payable	<u>(134,789)</u>	<u>(128,604)</u>
Net (Decrease) Increase in Cash	(92,046)	1,101,395
Cash, beginning of year	<u>5,858,470</u>	<u>4,757,075</u>
CASH, END OF YEAR	<u>\$ 5,766,424</u>	<u>\$ 5,858,470</u>
Supplemental Information:		
Cash paid for unrelated business income tax	\$ 195,269	\$ 186,192
Cash paid for interest	\$ 69,333	\$ 75,522
Noncash Activity –		
Included in operating activities are donated building materials, supplies, and land of \$301,162 for 2010 and \$166,424 for 2009		

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

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 1: Summary of Significant Accounting Policies

Organization

Habitat for Humanity of San Antonio, Inc. (Habitat) works with disadvantaged families of the community by constructing and providing simple, decent, and affordable housing. Families selected for a Habitat-constructed home must provide 300 hours "sweat equity" on their home, or on another Habitat project, to complete their eligibility. Upon moving into the home, the family begins paying for the house under the terms of a 20- to 25-year, interest-free financing arrangement (see Note 2). The sale price of each home is at, or less than, Habitat's cost of constructing the home.

Habitat also operates the Home Center. The Home Center consists of three retail stores selling new and used building materials. New, donated, and salvaged building materials are sold to the public at a reduced cost. The proceeds of the sales provide funds for Habitat's administrative and various other expenses.

Mission Statement

Habitat for Humanity of San Antonio, Inc. is an ecumenical, Christian organization working in partnership with God's people in need to build simple, decent, and affordable homes without interest or profit, thereby witnessing God's love in action.

Financial Reporting and Financial Statement Presentation

Habitat reports information regarding its financial position and activities according to two classes of net assets: unrestricted net assets and temporarily restricted net assets. Temporarily restricted net assets are the result of contributions with donor-imposed restrictions that permit the contributions to be expended only as specified, and are satisfied either by the passage of time or by actions of the organization. All net assets that are not temporarily restricted are considered to be unrestricted.

Recognition of 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 restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Contributions

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

Donated Goods and Services

Donated goods and services that can be measured, and meet certain other requirements, are recorded in the financial statements as contributions and expenses of a like amount. The value of the time of unpaid (unskilled) volunteers who have donated significant time to building Habitat homes and performing certain administrative functions is not reflected in these financial statements because it does not meet the requirements of recording under United States generally accepted accounting principles (GAAP).

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 1: Summary of Significant Accounting Policies (Continued)

Tax Status

Habitat is exempt from federal income taxes pursuant to provisions of Section 501(c)(3) of the Internal Revenue Code (see Note 13). Habitat adopted the provisions of FASB ASC topic 740-10-25, *Income Taxes – Overall – Recognition*, which requires recognition and disclosure of uncertain tax positions in the financial statements and footnotes. The management of Habitat believes it has no material uncertain tax positions and, accordingly, it will not recognize any liability for unrecognized tax benefits.

Advertising Costs

Habitat expenses advertising costs at the time the advertising occurs.

Use of Estimates

The preparation of the financial statements on the accrual basis of accounting requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results may differ from those estimates.

Summarized Prior Year Financial Information

The financial statements include certain prior year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with GAAP. Accordingly, such information should be read in conjunction with Habitat's financial statements for the year ended December 31, 2009, from which the summarized information was derived.

Cash

All highly liquid investments with original maturities of three months or less are considered cash equivalents for cash flow purposes.

Inventory

Inventory consists of donated and purchased goods. Purchased goods are valued at the lower of cost or market. Inventory purchased for resale is subject to unrelated business income tax. Cost is determined by the moving-average cost method. Market is based on net realizable value.

Donated items that can be used in the construction of houses are valued at the estimated cost that Habitat would have paid for the item had it not been donated.

Any donated items that cannot be used in the construction of houses are resold by Habitat in the Home Centers. Habitat believes that the inventory of contributed goods and materials that are for resale does not possess an attribute that is easily measurable or verifiable, with sufficient reliability to determine an inventory value at the time of donation. It is only through the value-added processes that prepare the donated inventory for sale that the donated inventory has value. Accordingly, contributed goods and materials inventory for resale are valued at zero at the time of donation. Habitat subsequently estimates the value of inventory at year end based on subsequent sales of inventory.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 1: Summary of Significant Accounting Policies (Continued)

Mortgages Receivable

Habitat imputes interest on its mortgages receivable which carry a zero percent stated interest rate. The value of a Habitat house given in exchange for the mortgage note is deemed to be the present value of all future mortgage principal payments, using the effective mortgage interest rate at the time of issuance. The difference between the face amount of the note and its present value is accounted for as a discount, recorded on the Statement of Financial Position as a contra account to mortgages receivable, and amortized over the life of the mortgage.

Mortgage Discount Amortization

Mortgage discount amortization is recorded on the Statements of Financial Position as a contra account to mortgages receivable, and amortized using the straight-line method over the life of the note. Mortgages are discounted at rates varying from 8% to 14%.

Allowance for Uncollectible Accounts

Habitat considers all notes receivable to be fully collectible or, if not fully collectible, then it is considered that the value of the homes collateralizing the notes exceeds the unpaid amount of the related receivable. Accordingly, no allowance for uncollectible accounts is included in Habitat's financial statements.

Lots Held for Future Development

Lots held for future development, and homes under construction or held for sale, are recorded at cost, which is equal to or less than estimated future sales prices. Cost includes land acquisition and other related development costs.

Property and Equipment

Habitat capitalizes property and equipment having an estimated useful life of more than one year and a cost of \$1,000 or more. Purchased property and equipment is stated at cost; donated property and equipment is recorded at fair value at the date of the gift. Depreciation is calculated on the straight-line method over the estimated useful lives of the depreciable assets, which range from three to 40 years (see Note 4).

Deposits Held in Custody for Homeowners

Deposits held in custody for homeowners are escrow funds collected from homeowners for payment of their property taxes and homeowner's insurance. These custodial funds are held in a fiduciary capacity by Habitat.

Fair Value of Financial Instruments

Effective January 1, 2008, Habitat adopted the Fair Value Measurements and Disclosures provisions of Accounting Standards Codification (ASC) 820, which establish a framework for measuring fair value and require enhanced disclosures about fair value measurements. ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants. ASC 820 also requires disclosure about how fair value is determined for assets and liabilities, and establishes a hierarchy for which these assets and liabilities must be grouped, based on significant levels of inputs.

Under the Fair Value Measurements and Disclosures topic of the Codification, ASC 820, disclosures are required about how fair value is determined for assets and liabilities, and a hierarchy for which these assets and liabilities must be grouped is established, based on significant levels of inputs as follows:

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 1: Summary of Significant Accounting Policies (Continued)

Fair Value of Financial Instruments (Continued)

Level 1 – Quoted prices in active markets for identical assets or liabilities;

Level 2 – Quoted prices in active markets for similar assets and liabilities, and inputs that are observable for the asset or liability;

Level 3 – Unobservable inputs for the asset or liability, such as discounted cash flow models or valuations.

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. Habitat's financial instruments measured at fair value consist primarily of contributions receivable and mortgages receivable. As of December 31, 2010 and 2009, the carrying value of contributions receivable approximates fair value because the majority of the receivable balance is due within one year. A present value discount was calculated and determined to be insignificant and, therefore, was not recorded in these financial statements. The fair value of mortgages receivable is estimated by discounting the future cash flows and outflows using a current interest rate of return based on current market value (see Note 16).

Note 2: Mortgage Notes Receivable

The financing arrangement for the sale of Habitat homes is interest-free and payable over 20 to 25 years. For financial accounting purposes, the financial arrangement is treated as a single transaction and is accounted for as a sale at inception of the arrangement.

Mortgage notes receivable at December 31 are summarized as follows:

	<u>Due Within</u> <u>One Year</u>	<u>Due Beyond</u> <u>One Year</u>	<u>Total</u>
2010:			
Mortgage notes receivable	\$ 908,178	12,553,148	\$ 13,461,326
Less: Unamortized discount			(6,697,642)
			\$ <u>6,763,683</u>
2009:			
Mortgage notes receivable	\$ 811,107	11,303,937	\$ 12,115,044
Less: Unamortized discount			(6,069,620)
			\$ <u>6,045,424</u>

In 2006, Habitat began its participation in the Texas Department of Housing and Community Affairs' (TDHCA) Texas Bootstrap Loan Program. The program requires TDHCA to work through certified nonprofit organizations to create mortgages to owner-builders who provide at least 60% of the labor necessary to build the proposed housing. Because the maximum amount allowed under the bootstrap mortgage program is \$30,000, the homebuyer normally obtains a first mortgage from Habitat and then a bootstrap mortgage from the TDHCA

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 2: Mortgage Notes Receivable (Continued)

in order to purchase a Habitat house. Both mortgages have an interest rate of 0% and are serviced by Habitat through a local bank. The homeowner makes a single monthly payment to the bank for both mortgages. The bank, in turn, remits the entire amount collected to Habitat. Habitat retains its portion of the total mortgage payment and remits the portion attributable to the bootstrap mortgage to TDHCA. Bootstrap mortgages are not reflected in Habitat's financial statements because Habitat acts only as a servicing agent for these mortgages. At December 31, 2010 and 2009, \$2,646,724 and \$2,197,877, respectively, were the total amounts of mortgages held by TDHCA for Habitat houses.

Note 3: Inventory

Inventory consists of the following at December 31:

	<u>2010</u>	<u>2009</u>
Home construction materials	\$ 444,862	\$ 403,773
Donated goods for resale	192,141	190,766
Purchased goods for resale	<u>767,139</u>	<u>537,629</u>
Total	\$ <u>1,404,142</u>	\$ <u>1,132,168</u>

Note 4: Property and Equipment

Land, buildings, and equipment, less accumulated depreciation at December 31, are as follows:

	<u>2010</u>	<u>2009</u>
Probandt Facilities:		
Land	\$ 243,347	\$ 243,347
Buildings and improvements	<u>1,211,718</u>	<u>1,215,318</u>
Total	1,455,065	1,458,665
Walzem Home Center:		
Land	720,354	720,354
Building and improvements	<u>1,215,334</u>	<u>1,213,334</u>
Total	1,935,688	1,933,688
Meadow Leaf Home Center:		
Land	136,000	136,000
Building and improvements	<u>1,588,668</u>	<u>1,587,468</u>
Total	1,724,668	1,723,468
Furniture, equipment, and vehicles	<u>663,017</u>	<u>621,747</u>
Total	5,778,438	5,737,568
Less: Accumulated depreciation	<u>(1,418,861)</u>	<u>(1,220,942)</u>
Net Property and Equipment	\$ <u>4,359,577</u>	\$ <u>4,516,626</u>

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 5: Depreciation Expense

A portion of depreciation expense is charged to the Home Center as direct costs on the Statement of Activities, and the remainder is shown on the Statement of Functional Expenses. Depreciation expense for the year ended December 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Depreciation charged to direct costs of Home Centers	\$ 165,173	\$ 164,361
Depreciation charged to expense	<u>47,511</u>	<u>51,979</u>
Total	\$ <u>212,684</u>	\$ <u>216,340</u>

Note 6: Contributions and Temporarily Restricted Net Assets

Contributions for the years ended December 31 consisted of the following:

	<u>2010</u>	<u>2009</u>
Unrestricted Contributions:		
Public support	\$ 277,007	\$ 563,985
Habitat for Humanity International	7,686	3,897
House sponsors	<u>1,045,081</u>	<u>842,519</u>
Total Unrestricted Contributions	1,329,774	1,410,401
Temporarily Restricted Contributions –		
House sponsors	<u>239,500</u>	<u>262,902</u>
Total Contributions	\$ <u>1,569,274</u>	\$ <u>1,673,303</u>

Temporarily restricted net assets consisted of the following on or as of December 31:

	<u>2010</u>	<u>2009</u>
Restricted for Future Years' Program Activities	\$ <u>339,430</u>	\$ <u>350,627</u>

Note 7: Net Assets Released from Restriction

Net assets were released from donor restrictions by incurring expenses satisfying the restricted purposes. Purpose restricted contributions released in 2010 and 2009 totaled \$250,697 and \$245,883, respectively.

Note 8: Cash in Excess of Federally Insured Limits

Financial instruments which potentially subject Habitat to a concentration of credit risk consist principally of cash. Habitat maintains multiple bank accounts in multiple banks in San Antonio. Accounts at the institutions are insured by the Federal Deposit Insurance Corporation (FDIC) up to \$250,000 for interest-bearing accounts, and without limit for noninterest-bearing transaction accounts. Cash at the 2010 and 2009 year ends exceeded federally insured limits by \$4,217,409 and \$4,108,813, respectively.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 9: Contributions Receivable

Contributions pledged for future years as of December 31, 2010, are as follows:

2011	\$ 54,675
2012	48,040
2013	20,685
2014	7,165
2015	--
Thereafter	<u>--</u>
	\$ <u>130,565</u>

All contributions receivable are considered to be collectible. A present value discount was determined to be insignificant to the financial statements and, therefore, was not recorded in these financial statements.

Note 10: Notes Payable

Habitat's notes payable as of December 31, consisted of the following:

	<u>2010</u>	<u>2009</u>
Term Credit (Advancing Non-Revolver Commitment Note), 4.7% fixed. Maximum outstanding amount under the credit will not exceed the lesser of \$3,100,000 or the borrowing base defined as 60% of eligible first lien deed of trust on mortgages. Payments of \$17,010 are due on the first day of each month, which include interest and principal. The note is scheduled to mature on May 1, 2019. Note is collateralized by assigned first lien deed of trust on mortgages.	\$ <u>1,404,856</u>	\$ <u>1,539,645</u>

Estimated future principal payments on debt are:

2011	\$ 141,100
2012	147,876
2013	154,977
2014	162,420
2015	170,219
Thereafter	<u>628,264</u>
	\$ <u>1,404,856</u>

Note 11: Deposits Held in Custody

Habitat has assigned its mortgage collections operations to Frost National Bank (Frost) and the agreement states that Frost will collect and remit principal and escrow payments on the mortgages.

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 12: Pension Plan

Habitat has a defined contribution pension plan that qualifies under Section 403(b) of the Internal Revenue Code. This plan covers all employees with over six months of service who are over the age of 21 and work at least 20 hours per week. In 2010, the employer contribution percentage was increased from 5% to 6%. Habitat's contribution totaled \$108,894 and \$91,115 in 2010 and 2009, respectively.

Note 13: Unrelated Business Income Tax

Habitat is subject to and pays unrelated business income tax on the sale of items purchased to resell in the Home Center stores. The tax is calculated as a percentage of net sales using corporate rates. Net sales are gross sales less any cost of goods sold and other allocated costs.

Note 14: Land Development

The 2010 land development for future homes included expenses of \$142,298 for Coleman Ridge Unit 1 Subdivision. The 2009 land acquisitions and development on future homes included expense of \$502,116 for Palo Alto Subdivisions.

Note 15: City of San Antonio – Forgivable Loan from the City of San Antonio

In 2007, Habitat received a forgivable loan from the City of San Antonio (the City) for the construction of infrastructure at the Palo Alto Subdivision III. The provisions of the loan provided that payments on the loan be deferred, and that the principal and interest be forgiven on a pro-rata basis as each of 55 houses in the development are sold. Habitat expended these funds as follows:

Years Ended December 31,		
2007:	\$ 109,718	(all of which was reimbursed by the City during 2008)
2008:	766,116	(\$759,913 was reimbursed by the City during 2008 with \$6,203 still receivable at December 31, 2008 but received during 2009)
2009:	<u>90,423</u>	(all of which was reimbursed by the City during 2009)
Total Expended:	\$ <u>966,257</u>	

The reimbursements from the City were recorded as grant revenue at the time they were earned (i.e. funds expended), since it was likely Habitat would fulfill the loan terms. Habitat fulfilled the terms of the 2007 loan and the full loan balance was forgiven by December 31, 2010.

In 2008, Habitat received a forgivable loan from the City for the construction of infrastructure at the Palo Alto Subdivision IV. The provisions of the loan provided that payments on the loan are deferred and that the principal and interest will be forgiven on a pro-rata basis as each of 50 houses in the development are sold. Habitat expended these funds as follows:

Years Ended December 31,		
2008:	\$ 510,276	(\$227,096 was reimbursed by the City during 2008 with \$283,180 still receivable at December 31, 2008 and \$236,635 received during 2009, leaving \$46,545 receivable at December 31, 2009 which was received during 2010)
2009:	<u>414,724</u>	(\$368,769 was reimbursed by the City during 2009 with \$45,955 still receivable at December 31, 2009 but received during 2010)
Total Expended:	\$ <u>925,000</u>	

HABITAT FOR HUMANITY OF SAN ANTONIO, INC.

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2010 AND 2009

Note 15: City of San Antonio – Forgivable Loan from the City of San Antonio (Continued)

The reimbursements from the City were recorded as grant revenue at the time they were earned (i.e. funds expended), since it was likely Habitat would fulfill the loan terms. Habitat fulfilled the terms of the 2008 loan and the full loan balance was forgiven by December 31, 2010.

In 2010, Habitat received a forgivable loan from the City for the construction of infrastructure at the Coleman Ridge Subdivision Unit 1. The provisions of the loan provided that payments on the loan be deferred, and that the principal and interest be forgiven on a pro-rata basis as each of 32 houses in the development are sold. At December 31, 2010, Habitat had not yet begun expending the \$600,000 allowed under this loan, so no revenue or expenses were recorded in 2010 or receivable at the end of 2010.

Note 16: Fair Value Measurements

In accordance with the fair value hierarchy described in Note 1, the following table shows the fair value of Habitat's financial assets and liabilities that are required to be measured at fair value as of December 31:

	Level 1	Level 2	Level 3	Total
2010:				
Contributions receivable	\$ --	--	130,565	\$ 130,565
Mortgages receivable	--	--	6,763,683	6,763,683
Total Assets/Liabilities at Fair Value	\$ --	--	6,894,248	\$6,894,248
2009:				
Contributions receivable	\$ --	--	144,720	\$ 144,720
Mortgages receivable	--	--	6,045,424	6,045,424
Total Assets/Liabilities at Fair Value	\$ --	--	6,190,144	\$6,190,144

Level 3 Gains and Losses

The following table sets forth a summary of changes in the fair value of Habitat's Level 3 liabilities for the year ended December 31, 2010:

	Level 3
Contributions Receivable:	
Balance, beginning of year	\$ 144,720
Payments received	(41,455)
New pledges	<u>27,300</u>
Balance, End of Year	\$ <u>130,565</u>
Mortgages Receivable:	
Balance, beginning of year	\$ 6,045,424
New mortgages	2,296,173
Payments	(949,891)
Change in discount	<u>(628,023)</u>
Balance, End of Year	\$ <u>6,763,683</u>

Note 17: Subsequent Events

Subsequent events were evaluated through the date of this report, which is the date the financial statements were available to be issued.