

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

FINANCIAL REPORT

JUNE 30, 2013

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

FINANCIAL REPORT

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Habitat for Humanity of Southeastern
Connecticut, Inc.
New London, Connecticut

We have audited the accompanying financial statements of Habitat for Humanity of Southeastern Connecticut, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2013, and the related statements of activities, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat of Humanity of Southeastern Connecticut, Inc. as of June 30, 2013, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Prior Period Financial Statements

The financial statement of Habitat for Humanity of Southeastern Connecticut, Inc. as of June 30, 2012, were audited by other auditors whose report dated September 24, 2012, expressed an unmodified opinion on those statements.

Carter, Hayes + Associates, P.C.

Hamden, Connecticut
January 9, 2014

HABITAT FOR HUMANITY OF SOUTHEASTERN CONNECTICUT, INC.

STATEMENTS OF FINANCIAL POSITION

JUNE 30, 2013 AND 2012

ASSETS

	<u>2013</u>	<u>2012</u>
ASSETS		
Cash	\$ 519,813	\$ 614,869
Grants and sponsorships receivable	94,890	218,371
Non-interest bearing mortgage loans, net of unamortized discounts of \$1,603,626 and \$1,467,812, respectively	953,901	918,528
Land held for development	287,448	377,212
Construction in progress	332,019	210,483
Prepaid expenses and other current assets	60,805	45,549
Property and equipment, net	<u>268,540</u>	<u>226,195</u>
	<u>\$ 2,517,416</u>	<u>\$ 2,611,207</u>

LIABILITIES AND NET ASSETS

	<u>2013</u>	<u>2012</u>
LIABILITIES		
Accounts payable	\$ 39,106	\$ 21,728
Accrued expenses	8,706	8,113
Mortgages and notes payable	559,531	571,661
Lines of credit	49,989	55,400
Grants payable and deferred revenue	35,750	18,750
Escrows held	<u>683</u>	<u>-</u>
	<u>693,765</u>	<u>675,652</u>
 NET ASSETS		
Unrestricted	1,567,890	1,386,520
Temporarily restricted	<u>255,761</u>	<u>549,035</u>
	<u>1,823,651</u>	<u>1,935,555</u>
	<u>\$ 2,517,416</u>	<u>\$ 2,611,207</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF SOUTHEASTERN CONNECTICUT, INC.

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2013

(With Comparative Totals for Year ended June 30, 2012)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Totals</u>	
			<u>2013</u>	<u>2012</u>
SUPPORT AND REVENUES				
Contributions and grants	\$ 209,481	259,523	\$ 469,004	\$ 764,841
In-kind donations	102,556	-	102,556	149,438
Transfers to homeowners	403,721	-	403,721	464,288
Restore income	345,338	-	345,338	379,563
Mortgage loan discount amortization	60,400	-	60,400	58,499
Special events	9,089	-	9,089	4,646
Interest income	101	-	101	595
Realized gains on sale of assets	58,568	-	58,568	89,430
Miscellaneous	4,473	-	4,473	1,885
Net assets released from restrictions	<u>552,797</u>	<u>(552,797)</u>	<u>-</u>	<u>-</u>
	<u>1,746,524</u>	<u>(293,274)</u>	<u>1,453,250</u>	<u>1,913,185</u>
EXPENSES				
Program				
Construction and mortgage discounts	1,087,440	-	1,087,440	1,036,947
Restore	244,992	-	244,992	203,474
Supporting services				
General and administrative	136,927	-	136,927	156,727
Fundraising	<u>95,795</u>	<u>-</u>	<u>95,795</u>	<u>92,501</u>
	<u>1,565,154</u>	<u>-</u>	<u>1,565,154</u>	<u>1,489,649</u>
CHANGES IN NET ASSETS	181,370	(293,274)	(111,904)	423,536
NET ASSETS, beginning of year	<u>1,386,520</u>	<u>549,035</u>	<u>1,935,555</u>	<u>1,512,019</u>
NET ASSETS, end of year	<u>\$ 1,567,890</u>	<u>\$ 255,761</u>	<u>\$ 1,823,651</u>	<u>\$ 1,935,555</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF SOUTHEASTERN CONNECTICUT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2013

(With Comparative Totals for Year ended June 30, 2012)

	Program Services			Supportive Services			Total expenses	
	Construction	Mortgage		General and Administrative	Fundraising	Total	2013	2012
		Discounts	Restore					
Personnel Expenses:								
Salaries	\$ 136,000	\$ -	\$ 99,063	\$ 235,063	\$ 36,618	\$ 57,940	\$ 329,621	\$ 278,266
Payroll taxes and benefits	36,503	-	20,826	57,329	10,253	15,967	83,549	62,454
Total salaries and related benefits	172,503	-	119,889	292,392	46,871	73,907	413,170	340,720
Cost of homes transferred	519,159	-	-	519,159	-	-	519,159	486,848
Mortgage discounts	-	244,015	-	244,015	-	-	244,015	280,542
Construction/program expenses	48,024	-	5,317	53,341	-	-	53,341	26,474
Travel and meetings	18,641	-	10,343	28,984	8,326	249	37,559	43,286
Insurance	18,987	-	1,688	20,675	10,383	466	31,524	28,277
Professional fees	21,000	-	-	21,000	9,166	-	30,166	10,355
Office expenses	1,361	-	3,897	5,258	18,499	5,143	28,900	28,392
Depreciation	-	-	2,845	2,845	19,439	-	22,284	26,230
Advertising and printing	1,014	-	2,216	3,230	1,763	15,979	20,972	23,598
Occupancy costs	1,863	-	9,563	11,426	9,468	-	20,894	15,183
Tithe to Habitat International	19,124	-	-	19,124	-	-	19,124	31,362
Interest expense	11,703	-	48	11,751	1,678	-	13,429	13,848
Fees and permits	164	-	6,646	6,810	6,336	-	13,146	12,762
Telephone	3,325	-	2,090	5,415	2,750	-	8,165	6,601
Miscellaneous	3,785	-	1,695	5,480	2,248	-	7,728	12,264
AmeriCorps volunteers	2,772	-	-	2,772	-	-	2,772	17,877
Event expense	-	-	-	-	-	51	51	230
Rent expense	-	-	78,755	78,755	-	-	78,755	84,800
	\$ 843,425	\$ 244,015	\$ 244,992	\$ 1,332,432	\$ 136,927	\$ 95,795	\$ 1,565,154	\$ 1,489,649

HABITAT FOR HUMANITY OF SOUTHEASTERN CONNECTICUT, INC.

STATEMENT OF CASH FLOWS

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (decrease) in net assets	\$ (111,904)	\$ 423,536
Adjustments to reconcile increase (decrease) in net assets to net cash used in operating activities:		
Depreciation	22,284	26,230
Mortgages transferred to homeowners subject to non-interest bearing advances	(138,653)	(133,746)
Mortgage loan discount amortization	(60,400)	(58,499)
Gain on disposal of assets	(58,568)	(89,430)
(Increase) decrease in:		
Pledges receivable	-	2,750
Grants and sponsorships receivable	123,481	(76,269)
Land held for development	89,764	(208,436)
Construction in progress	(121,536)	(17,790)
Prepaid expenses and other current assets	(15,256)	(1,699)
Increase in:		
Accounts payable	17,378	6,072
Accrued expenses	593	1,285
Grants payable and deferred revenue	17,000	18,750
Escrows held	683	-
<i>Net cash used in operating activities</i>	<u>(235,134)</u>	<u>(107,246)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(66,288)	(30,201)
Collection of mortgages receivable	93,290	162,907
Proceeds from sale of mortgages receivable	130,618	151,884
<i>Net cash provided by investing activities</i>	<u>157,620</u>	<u>284,590</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on long term debt	(173,241)	(48,063)
Proceeds from long term debt	161,110	50,000
Proceeds from (payment on) lines of credit, net	(5,411)	55,400
<i>Net cash provided by (used in) financing activities</i>	<u>(17,542)</u>	<u>57,337</u>
NET INCREASE (DECREASE) IN CASH	(95,056)	234,681
CASH, beginning	<u>614,869</u>	<u>380,188</u>
CASH, ending	<u>\$ 519,813</u>	<u>\$ 614,869</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF SOUTHEASTERN CONNECTICUT, INC.

STATEMENT OF CASH FLOWS, Continued

YEARS ENDED JUNE 30, 2013 AND 2012

	<u>2013</u>	<u>2012</u>
SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION:		
Operating activities reflect cash paid during the period for:		
Interest	<u>\$ 13,429</u>	<u>\$ 13,848</u>
 SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING ACTIVITY:		
Issuance of non-interest bearing mortgage loans	\$ 382,668	\$ 414,288
Discounts on non-interest bearing mortgage loans	<u>(244,015)</u>	<u>(280,542)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 138,653</u>	<u>\$ 133,746</u>

See Notes to Financial Statements.

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2013

1. Nature of Organization and Significant Accounting Policies

Nature of Organization

Habitat for Humanity of Southeastern Connecticut, Inc. ("Habitat") is a tax-exempt, not-for-profit organization organized under Connecticut law in 1987. Habitat is an independent affiliate of Habitat for Humanity International, Inc. ("HFHI"), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Habitat, in the spirit of sharing, builds decent and affordable homes using volunteer labor for very low-income individuals in New London County. Purchasers, who have been approved and selected by Habitat based on income and need for affordable housing, volunteer their labor in partnership with Habitat and other volunteers from the community to build their homes. The homes are then sold to the individuals at cost and financed by Habitat with non-interest bearing mortgages. These mortgages are usually long term, ranging from twenty to forty years, and contain provisions to limit the homeowners from profiting on the resale of their homes.

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenue is recognized when earned and expenses are recognized when incurred.

Financial Statement Presentation

In accordance with FASB ASC 958-205 *Not for Profit Entities, Presentation of Financial Statements*, the Organization reports information regarding its financial position and activities according to three classes of net assets:

Unrestricted

Unrestricted net assets represent available sources other than donor restricted contributions.

Temporarily Restricted

Temporarily restricted net assets represent contributions that are restricted by the donor either as to purpose or as to time of expenditure.

Permanently Restricted

Permanently restricted net assets represent contributions received with the donor restriction that the principal be invested in perpetuity. Income and capital gains may or may not be used depending on the endowment agreement. Habitat has no permanently restricted net assets at June 30, 2013.

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

NOTES TO FINANCIAL STATEMENTS, Continued

Recognition of Support and Revenue

Grants and Contracts

Grants and contracts are generally considered to be exchange transactions in which the grantor or contractor requires the performance of specified activities.

Entitlement to cost reimbursement grants and contracts is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Entitlement to performance-based grants and contracts is conditioned on the attainment of specific performance goals and, therefore, is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenues recognized are presented as deferred revenue.

Contributions

Contributions are defined as voluntary, nonreciprocal transfers.

Unrestricted and unconditional contributions are recognized as support when received or pledged, if applicable. Contributions are reported as temporarily restricted support if they are received with donor stipulations that limit the use of such assets. When a restriction expires, that is, when a stipulated-time restriction ends or a purpose restriction is accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of changes in net assets as net assets released from restrictions. Contributions received with donor imposed conditions are presented as deferred support until such conditions are substantially met, at which time they are recognized as support.

Habitat's policy is to recognize the expiration of donor restrictions for contributions of property and equipment or the use of contributions restricted for property and equipment in the year the property and equipment is placed in service. An exception to this policy is when a grantor places a lien on property and equipment purchased or constructed with granted funds. In this situation, the grant is recognized utilizing the straight-line method over the life of the lien.

ReStore Revenue

ReStore sales are recognized as revenue at the time the merchandise is transferred to the customer. Historically, sales returns have not been significant.

Property and Equipment

Donated assets are stated at fair market value as determined by management at the date contributed. Property purchased is recorded at cost.

Depreciation is provided utilizing the straight-line method over the estimated useful lives of the property as follows:

Building and improvements	3 to 40 years
Furniture, equipment and vehicles	5 to 7 years

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

NOTES TO FINANCIAL STATEMENTS, Continued

Maintenance and repair costs are charged to operations as incurred; major renewals and betterments are capitalized. The costs relating to assets sold or retired are removed from the account balance at the time of the disposition and the related gains and losses are included in the change in net assets.

Land Held for Development

Land held for development consists of land and improvements to be utilized as lots for future Habitat homeowners. Costs incurred to improve land are capitalized when incurred. The total allocated cost of each lot is charged to construction in progress upon commencement of construction activities.

Use of Estimates

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used.

Functional Allocation of Expenses

The costs of providing the program and other activities have been summarized on a functional basis in the statement of activities and changes in net assets. Accordingly, certain costs have been allocated among the program and supporting services benefited.

Donated Services and Materials

Donated materials, which are contributed by outside parties, are recorded as support and expense, when measurable, in the period in which the materials are donated.

Habitat recognizes donated services if they create or enhance nonfinancial assets or requires specialized skills and would typically be purchased if not provided by donation. A substantial number of volunteers have made significant contributions of their time to Habitat's homebuilding program which do not meet this criterion for recognition in the financial statements.

For the years ended June 30, 2013 and 2012, donated materials and services amounted to \$102,556 and 149,438, respectively.

Income Taxes

Habitat, a not-for-profit organization operating under section 501(c) (3) of the Internal Revenue Code, is exempt from federal and state taxes under the group exemption held by HFHI and, accordingly, no provision for income taxes is recorded in the financial statements.

The Organization files tax returns in the United States. The Organization has not taken any tax positions that management believes would result in additional tax liabilities upon examination of the tax returns by a tax jurisdiction. The Organization has no open tax years prior to 2009. The Organization's tax returns are subject to examination, generally for three years after they were filed.

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

NOTES TO FINANCIAL STATEMENTS, Continued

Advertising

Advertising costs are expensed as incurred and totaled \$20,972 and 23,597 for the years ended June 30, 2013 and 2012, respectively. Advertising costs consist primarily of print media.

Summarized Financial Information for 2012

The financial statements include certain 2012 summarized comparative information in total but not by net asset class or by program. Such information does not include sufficient detail to constitute a presentation in conformity with accepted accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the Habitat's financial statements for the year ended June 30, 2012 from which the summarized information was derived.

Reclassifications

Certain amounts in prior-year financial statements have been reclassified to conform to the presentation in the current-year financial statements, with no effect on net assets.

Disclosure of Subsequent Events

FASB ASC 855, *Subsequent Events*, establishes general standards of accounting and disclosure requirements for subsequent events, events that occur after the balance sheet date but before the financial statements are issued. In addition, certain events subsequent to the balance sheet date may require recognition in the financial statements as of the statement of financial position date under the requirements of FASB ASC 855. Management has evaluated subsequent events through January 9, 2014, the date the financial statements were available to be issued. Management is not aware of any events subsequent to the statement of financial position date which would require additional adjustment to, or disclosure in, the accompanying financial statements.

2. Concentrations

Cash Investments

Financial instruments that potentially subject Habitat to concentrations of credit risk consist principally of temporary cash investments. The Organization places its cash deposits with high credit quality financial institutions and such deposits may exceed federal depository insurance limits for short periods of time. The Organization has not experienced any losses in such accounts.

Grants and Sponsorships Receivables

Grants and sponsorship receivables are evidenced by signed contracts with a variety of federal, state and local governments, and based on historical experience; management believes these receivables represent a negligible credit risk. Accordingly, management has not established an allowance for potential credit losses.

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

NOTES TO FINANCIAL STATEMENTS, Continued

Support and Revenue

Grants and contracts with various public agencies require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill such conditions, which include expending funds in accordance with the approved budget, could result in the return of funds to the grantor.

3. Grants and Sponsorships Receivable

As of June 30, 2013, grants and sponsorships receivable were comprised of the following:

HUD SHOP Funds	\$43,000
City of New London	25,650
Federal Home Loan Bank	25,000
HUD Capacity Building Grant	<u>1,240</u>
	<u>\$94,890</u>

4. Construction in Progress

Construction in progress represents the cumulative amounts expended to date on land, building and renovation costs and a representative amount for donated materials and land. Projects currently in progress at June 30, 2013 are:

Flanders Road, East Lyme	\$115,010
344 Maple Street, Montville	78,378
151 Lincoln Street, New London	74,522
66 Raymond Street, New London	62,066
14 Front, Street, Brooklyn, repairs	<u>2,043</u>
	<u>\$332,019</u>

5. Mortgages Receivable

Mortgages receivable consist of thirty-three (33) non-interest bearing loans which are secured by real estate and payable in monthly installments over the life of the mortgage. The mortgage loans have original maturities ranging from 7 to 40 years and arose in conjunction with Habitat's homebuilding initiatives in Southeastern Connecticut. Mortgage servicing is performed by a third party servicer, Liberty Bank, for all except two of the mortgages.

The non-interest bearing mortgages have been discounted at various rates ranging from 7.5% to 9% based on the prevailing market rates at the inception of the mortgages. These original discounted amounts are reflected in the financial statements as *Mortgage Discounts* on the Statement of Functional Expenses. The discounts are amortized using the straight-line method over the lives of the mortgages and the income is reflected on the Statements of Activities.

Management's periodic evaluation of the adequacy of the allowance for loan loss is based on Habitat's past loan loss experience and the historically significant specific collateral value in excess of related mortgages. Management has evaluated these factors, and has determined that no allowance for loan loss is necessary at June 30, 2013.

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

NOTES TO FINANCIAL STATEMENTS, Continued

6. Property and Equipment

Property and Equipment consisted of the following at June 30, 2013:

Land and buildings	\$268,645
Equipment and vehicle	95,952
ReStore Leaseholds	43,561
Furniture and fixtures	<u>14,052</u>
	422,210
Less accumulated depreciation	<u>153,670</u>
	<u>\$268,540</u>

7. Mortgages and Notes Payable

Long-term debt at June 30, 2013 consisted of the following:

Note payable to Dime Bank due in monthly installments of \$635 including interest at 4.0%, due March 2038, secured by a mortgage receivable	\$118,645
Note payable to Dime Bank due in monthly installments of \$479 including interest at 4.0%, due June 2035, secured by a mortgage receivable	83,338
Note payable to HFHI due in quarterly installments of \$1,453 including interest at 4.0%, due December 2014, secured by mortgages receivable	25,264
Mortgage payable with Liberty Bank due in monthly installments of \$1,080 including interest at 5.75%, due October 2014, secured by property at 377 Broad Street, New London, CT	16,570
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$330, due November 2033, secured by a mortgage receivable	80,844
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$288, due July 2036, secured by a mortgage receivable	79,818
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$315, due February 2031, secured by a mortgage receivable	66,502

**HABITAT FOR HUMANITY OF SOUTHEASTERN
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NOTES TO FINANCIAL STATEMENTS, Continued

Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$211, due July 2029, secured by a mortgage receivable	40,696
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$283, due November 2022, secured by a mortgage receivable	31,935
Non-interest bearing notes payable to HFHI for Self-Help Opportunity Program (SHOP) due in monthly installments ranging from \$19 to \$156, due through June 2019, unsecured	<u>15,919</u>
	<u>\$559,531</u>

Aggregate maturities required on long-term debt at June 30, 2013 are as follows:

2014	\$ 52,844
2015	38,609
2016	26,794
2017	27,030
2018	25,408
Thereafter	<u>388,846</u>
	<u>\$559,531</u>

8. Lines of Credit

The Organization has available a line of credit with Liberty Bank in the amount of \$150,000 which is secured by substantially all of the business assets of the Organization. Amounts outstanding under this arrangement bear interest at the Wall Street Journal's prime rate less 1% (2.25% at June 30, 2013). There was \$24,992 outstanding under this line of credit as of June 30, 2013.

The Organization also has available an unsecured line of credit with Dime Bank in the amount of \$25,000. Amounts outstanding under this arrangement bear interest at the Wall Street Journal's prime rate less 1% (2.25% at June 30, 2013). There was \$24,997 outstanding under this line of credit as of June 30, 2013. This agreement expires July 2015.

9. Grants Payable and Deferred Revenue

Grants payable and deferred revenue consisted of the following at June 30, 2013:

Federal Home Loan Affordable Housing Program	\$25,000
Self Help-Opportunity Program (SHOP)	<u>10,750</u>
	<u>\$35,750</u>

Amounts are to be used for allowable costs per grant/contract agreements for the remainder of the grant/contract terms.

**HABITAT FOR HUMANITY OF SOUTHEASTERN
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NOTES TO FINANCIAL STATEMENTS, Continued

10. Temporarily Restricted Net Assets

Temporarily restricted net assets consist principally of contributions restricted for future construction costs.

11. 401(k) Plan

The Organization has adopted a 401(k) profit sharing plan. Employees must be at least 21 years of age and must be employed by the Organization for at least one year. Employee contributions are 100% matched up to 3% of their annual salary. The Organization has the option of making an annual discretionary contribution. Matching contributions amounted to \$5,939 and \$5,607 for the years ended June 30, 2013 and 2012, respectively. Discretionary contributions may be made at the option of the board of directors. No discretionary contributions were made for either year.

12. Operating Lease

The Organization leases space for the operation of its "Restore" program to sell used building products in a retail environment. The Organization was leasing 9,600 square feet of space in Salem, Connecticut in the amount of \$86,400 per year under a five year lease agreement that expired December 31, 2012. The Organization continued to lease the space on a month to month basis for \$7,200 per month until May 2013.

In April 2013 the Organization entered into a lease for 10,000 square feet of space in Waterford, Connecticut and moved the "Restore" program into that space in May 2013. The term of the lease is for three years and requires annual rent payments of \$75,000. Payments did not commence until July 2013 due to the space not being available by the date set in the lease.

Rent expense under these leases amounted to approximately \$78,755 and \$84,800 for the years ended June 30, 2013 and 2012, respectively.

The future minimum lease payments are as follows:

2014	\$ 75,000
2015	75,000
2016	<u>43,750</u>
	<u>\$193,750</u>

13. Sale of mortgages

The Organization has sold certain mortgages to the Connecticut Housing Finance Authority (CHFA) for the outstanding mortgage receivable balance in exchange for cash. For the years ending June 30, 2013 and 2012 Habitat sold mortgages of \$186,614 and \$216,977, respectively, and recognized a gain equal to the amount of the unamortized discount on those mortgages of \$60,277 and \$52,930, respectively.

14. Tithe

Habitat annually remits a portion of its unrestricted contributions (excluding in-kind contributions) to HFHI. The remittance is known as Tithing. These funds are used exclusively to construct homes in economically depressed areas around the world. The contributions to HFHI for the years ended June 30, 2013 and 2012 amounted to \$19,124 and \$31,362, respectively.

**HABITAT FOR HUMANITY OF SOUTHEASTERN
CONNECTICUT, INC.**

NOTES TO FINANCIAL STATEMENTS, Continued

15. Subsequent Event

Effective July 1, 2013, Habitat and Habitat for Humanity of Northeastern Connecticut, Inc. (HFHNECT) merged their operations with Habitat being the surviving entity. In conjunction with the merger, Habitat changed its name to Habitat for Humanity of Eastern Connecticut, Inc. The underlying purpose of the merger with HFHNECT is to serve more families by streamlining general support services, thereby creating operating efficiencies.

Net assets contributed by HFHNECT to Habitat based on their June 30, 2013 unaudited financial statements are as follows:

Assets Transferred from HFHNECT:

Cash	\$117,478
Non-interest bearing mortgages, net	193,882
Land held for development	20,971
Construction in progress	72,737
Vehicle and equipment, net	<u>26,579</u>
	<u>431,647</u>

Liabilities assumed from HFHNECT:

Escrow accounts	11,170
Accrued expenses	<u>1,368</u>
	<u>12,538</u>

Net unrestricted assets contributed by HFHNECT	<u><u>\$419,109</u></u>
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