

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

FINANCIAL REPORT

JUNE 30, 2014

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

FINANCIAL REPORT

JUNE 30, 2014

CONTENTS

	Page
INDEPENDENT AUDITORS' REPORT	1
FINANCIAL STATEMENTS	
Statement of Financial Position	2
Statement of Activities	3
Statement of Functional Expenses	4
Statement of Cash Flows	5 - 6
Notes to Financial Statements	7-15

CARTER

HAYES

+ ASSOCIATES, P.C.

INDEPENDENT AUDITORS' REPORT

CERTIFIED
PUBLIC
ACCOUNTANTS

1952 WHITNEY AVENUE
HAMDEN
CONNECTICUT
06517
(203) 287-3990
FAX (203) 287-3995
www.carterhayes.com

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

We have audited the accompanying financial statements of Habitat for Humanity of Eastern Connecticut, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2014, 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 Eastern Connecticut, Inc. as of June 30, 2014, 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.

Carter, Hayes + Associates, P.C.

Hamden, Connecticut
October 23, 2014

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.
STATEMENT OF FINANCIAL POSITION
JUNE 30, 2014

ASSETS

ASSETS

Cash	\$ 273,199
Accounts receivable	8,500
Non-interest bearing mortgage loans, net of unamortized discounts of \$1,833,864	1,131,950
Property held for development	673,315
Construction in progress	599,120
Prepaid expenses and other current assets	64,971
Property and equipment, net	<u>362,072</u>
	<u><u>\$ 3,113,127</u></u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 36,756
Accrued expenses	12,943
Mortgages and notes payable	520,511
Lines of credit	69,992
Escrows held	<u>13,150</u>
	<u>653,352</u>

NET ASSETS

Unrestricted	2,316,399
Temporarily restricted	<u>143,376</u>
	<u>2,459,775</u>
	<u><u>\$ 3,113,127</u></u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.
STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2014

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>2014</u>
SUPPORT AND REVENUES			
Contributions and grants	\$ 204,646	\$ 163,537	\$ 368,183
In-kind donations	407,420	-	407,420
Transfers to homeowners	215,000	-	215,000
Restore income	438,980	-	438,980
Mortgage loan discount amortization	180,756	-	180,756
Special events	9,972	-	9,972
Interest income	84	-	84
Miscellaneous	9,786	-	9,786
Net assets released from restrictions	<u>314,261</u>	<u>(314,261)</u>	<u>-</u>
	<u>1,780,905</u>	<u>(150,724)</u>	<u>1,630,181</u>
EXPENSES			
Program			
Construction and mortgage discounts	863,785	-	863,785
Restore	396,279	-	396,279
Supporting services			
General and administrative	85,017	-	85,017
Fundraising	<u>106,820</u>	<u>-</u>	<u>106,820</u>
	<u>1,451,901</u>	<u>-</u>	<u>1,451,901</u>
CHANGES IN NET ASSETS	329,004	(150,724)	178,280
NET ASSETS, beginning of year	<u>1,987,395</u>	<u>294,100</u>	<u>2,281,495</u>
NET ASSETS, end of year	<u>\$ 2,316,399</u>	<u>\$ 143,376</u>	<u>\$ 2,459,775</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2014

	Program Services			Supportive Services			
	Construction	Mortgage Discounts	Restore	Total	General and Administrative	Fundraising	Total
Personnel Expenses:							
Salaries	\$ 180,118	\$ -	\$ 133,617	\$ 313,735	\$ 36,515	\$ 61,992	\$ 98,507
Payroll taxes and benefits	45,093	-	29,669	74,762	7,905	16,977	24,882
Total salaries and related benefits	225,211	-	163,286	388,497	44,420	78,969	123,389
Cost of homes transferred	304,307	-	-	304,307	-	-	-
Mortgage discounts	-	132,218	-	132,218	-	-	-
Occupancy costs	7,602	-	49,800	57,402	5,422	-	5,422
Insurance	32,973	-	14,270	47,243	1,840	-	1,840
Professional fees	30,802	-	486	31,288	10,049	-	10,049
Travel and meetings	25,216	-	12,023	37,239	604	97	701
Depreciation	24,706	-	8,641	33,347	4,360	-	4,360
Construction/program expenses	20,276	-	17,081	37,357	-	-	-
Advertising and printing	11,365	-	5,082	16,447	689	18,507	19,196
Office expenses	11,620	-	1,791	13,411	10,124	7,088	17,212
Fees and permits	10,028	-	8,953	18,981	4,461	-	4,461
Interest expense	11,429	-	-	11,429	652	-	652
Tithe to Habitat International	11,795	-	-	11,795	-	-	-
Miscellaneous	1,332	-	4,225	5,557	890	1,958	2,848
Telephone	2,905	-	3,439	6,344	1,506	-	1,506
Event expense	-	-	-	-	-	201	201
Rent expense	-	-	107,202	107,202	-	-	-
	<u>\$ 731,567</u>	<u>\$ 132,218</u>	<u>\$ 396,279</u>	<u>\$ 1,260,064</u>	<u>\$ 85,017</u>	<u>\$ 106,820</u>	<u>\$ 191,837</u>
							<u>\$ 1,451,901</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Increase in net assets	\$ 178,280
Adjustments to reconcile decrease in net assets to net cash used in operating activities:	
Depreciation	37,707
Mortgages transferred to homeowners subject to non-interest bearing advances	(72,444)
Mortgage loan discount amortization	(180,756)
(Increase) decrease in:	
Grants and sponsorships receivable	86,390
Land held for development	(364,896)
Construction in progress	(41,489)
Prepaid expenses and other current assets	(4,166)
Increase (decrease) in:	
Accounts payable	(2,350)
Accrued expenses	2,869
Grants payable and deferred revenue	(35,750)
Escrows held	<u>1,297</u>
<i>Net cash used in operating activities</i>	<u>(395,308)</u>
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of property and equipment	(104,660)
Collection of mortgages receivable	<u>116,554</u>
<i>Net cash provided by investing activities</i>	<u>11,894</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Principal repayments on long term debt	(53,270)
Proceeds from long term debt	14,250
Proceeds from lines of credit, net	<u>20,003</u>
<i>Net cash used in financing activities</i>	<u>(19,017)</u>
NET DECREASE IN CASH	(402,431)
CASH, beginning	<u>675,630</u>
CASH, ending	<u>\$ 273,199</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.
STATEMENT OF CASH FLOWS, Continued
YEAR ENDED JUNE 30, 2014

**SUPPLEMENTAL DISCLOSURES OF CASH
FLOW INFORMATION:**

Operating activities reflect cash paid during the period for:

Interest	<u>\$ 12,081</u>
----------	------------------

**SUPPLEMENTAL DISCLOSURE OF NONCASH
INVESTING ACTIVITY:**

Issuance of non-interest bearing mortgage loans	\$ 204,662
Discounts on non-interest bearing mortgage loans	<u>(132,218)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 72,444</u>
Property taken back for outstanding mortgage balance	<u>\$ 152,875</u>

See Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2014

1. Nature of Organization and Significant Accounting Policies

Merger

On July 1, 2013, Habitat and Habitat for Humanity of Southeastern Connecticut, Inc. (HFHSECT) and Habitat for Humanity of Northeastern Connecticut, Inc. (HFHNECT) merged their operations to form Habitat for Humanity of Eastern Connecticut, Inc. ("Habitat"). The underlying purpose of the merger was to serve more families by streamlining general support services, thereby creating operating efficiencies.

Net assets contributed by each organization at July 1, 2013 are as follows:

	<u>HFHSECT</u>	<u>HFHNECT</u>
Assets		
Cash	\$ 519,813	\$155,817
Grants and sponsorships receivable	94,890	-
Non-interest bearing mortgages, net	953,901	194,278
Property held for development	287,448	20,971
Construction in progress	332,019	72,737
Vehicle and equipment, net	268,540	26,579
Prepays and other assets	<u>60,805</u>	<u>-</u>
	<u>\$2,517,416</u>	<u>\$470,382</u>
Liabilities:		
Accounts payable and accrued expenses	47,812	1,368
Mortgages and notes payable	559,531	-
Lines of credit	49,989	-
Grants payable and deferred revenue	35,750	-
Escrows held	<u>683</u>	<u>11,170</u>
	<u>693,765</u>	<u>12,538</u>
Net assets:		
Unrestricted	1,567,890	419,505
Restricted	<u>255,761</u>	<u>38,339</u>
	<u>1,823,651</u>	<u>457,844</u>
	<u>\$2,517,416</u>	<u>\$470,382</u>

Nature of Organization

Habitat is a tax-exempt, not-for-profit organization organized under Connecticut law. Habitat is an independent affiliate of Habitat for Humanity International, Inc. ("HFHI"), a nondenominational Christian nonprofit organization whose purpose is to create decent,

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

NOTES TO FINANCIAL STATEMENTS, Continued

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 and Eastern Windham Counties. 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 at no profit through Habitat or other lenders. 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, 2014.

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.

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

NOTES TO FINANCIAL STATEMENTS, Continued

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

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.

Property Held for Development

Property held for development consists of land, buildings and improvements to be utilized as homes 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.

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

NOTES TO FINANCIAL STATEMENTS, Continued

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, Properties 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. Donated properties are recorded as support and Property Held for Development, based on assessments and/or appraisals, in the period in which the properties 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 year ended June 30, 2014, donated materials, properties and services amounted to \$407,420.

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 June 30, 2011. The Organization's tax returns are subject to examination, generally for three years after they were filed.

Presentation of Sales Taxes

The State of Connecticut imposes a sales tax of 6.35% on certain types of the Organization's sales. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to exclude the tax collected and remitted to the State from revenues and expenses.

Advertising

Advertising costs are expensed as incurred and totaled \$35,643 for the year ended June 30, 2014. Advertising costs consist primarily of print media.

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

NOTES TO FINANCIAL STATEMENTS, Continued

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 October 23, 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, other than those included in Note 12.

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.

Mortgages Receivable

Mortgages receivable are secured by the property sold 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.

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. 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, 2014 are:

Flanders Road, East Lyme	\$180,044
344 Maple Street, Montville	130,844
141 Rogers Lake Road, Old Lyme	153,512
90 Van Den Nort, Putnam	76,210
6 Clairmont Court, Norwich	36,932
43 Summer Street, New London	<u>21,578</u>
	<u>\$599,120</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

4. Mortgages Receivable

Mortgages receivable consist of forty-one (41) 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 Eastern Connecticut. Mortgage servicing is performed by a third party servicer, Liberty Bank, for all except eight of the mortgages which are serviced by Putnam Bank.

The non-interest bearing mortgages have been discounted at various rates ranging from 7.39% to 9% based on the prevailing market rates at the inception of the mortgages. The discount rates used are established by HFHI based on multiple rates reflecting risk and lending rates. 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 Statement 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, 2014.

In addition to the non-interest bearing mortgage received from the sale of each home, Habitat issues a contingent second mortgage. The second mortgages represent the excess of the lessor of the appraised value of the home and the total development cost of the home over the original loan at the date the second mortgage is executed. Should the following triggering events occur prior to the maturity date of the first mortgage the second mortgage would become due: refinance the first, sell or transfer ownership, or default on the mortgage. Based on the Organization's past loan history, the second mortgage payoff is considered remote by Habitat, and therefore no receivable has been recorded in the financial statements. No second mortgages were paid off early during the year ended June 30, 2014.

In April 2014, the Organization took back a property from a homeowner who decided to relocate. The property was added back to Construction in Progress in the amount of \$152,785, the outstanding mortgage receivable balance at the date of the transfer, and the unamortized discount of \$101,966 was taken into income.

5. Property and Equipment

Property and Equipment consisted of the following at June 30, 2014:

Land and buildings	\$268,645
Equipment and vehicle	168,775
ReStore Leaseholds	113,128
Furniture and fixtures	<u>14,052</u>
	564,600
Less accumulated depreciation	<u>202,528</u>
	<u>\$362,072</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

6. Mortgages and Notes Payable

Long-term debt at June 30, 2014 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	\$115,779
Note payable to Dime Bank due in monthly installments of \$479 including interest at 4.0%, due June 2035, secured by a mortgage receivable	80,924
Note payable to HFHI due in quarterly installments of \$1,453 including interest at 4.0%, due December 2014, secured by mortgage receivable	8,589
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	4,255
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$330, due November 2033, secured by a mortgage receivable	76,880
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$288, due July 2036, secured by a mortgage receivable	76,359
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$315, due February 2031, secured by a mortgage receivable	62,725
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$211, due July 2029, secured by a mortgage receivable	38,159
Non-interest bearing note payable to Connecticut Housing Finance Authority due in monthly installments of \$283, due November 2022, secured by a mortgage receivable	28,544

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

NOTES TO FINANCIAL STATEMENTS, Continued

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>28,297</u>
	<u>\$520,511</u>

Aggregate maturities required on long-term debt at June 30, 2014 are as follows:

2015	\$ 40,720
2016	30,345
2017	30,582
2018	28,961
2019	25,869
Thereafter	<u>364,034</u>
	<u>\$520,511</u>

7. 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, 2014). There was \$44,992 outstanding under this line of credit as of June 30, 2014. This agreement expires January 2015.

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 .5% (2.75% at June 30, 2014). There was \$25,000 outstanding under this line of credit as of June 30, 2014. This agreement expires January 2015.

8. Temporarily Restricted Net Assets

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

9. 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 \$6,592 for the year ended June 30, 2014. Discretionary contributions may be made at the option of the board of directors. No discretionary contributions were made for the year ended June 30, 2014.

10. Operating Lease

The Organization leases space for the operation of its "Restore" program to sell used building products in a retail environment.

The Organization leases 10,000 square feet of space in Waterford, Connecticut. The term of the lease is for three years commencing April 1, 2013 and requires annual rent payments of \$75,000.

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

NOTES TO FINANCIAL STATEMENTS, Continued

The Organization also leased space for the Eastern Windham County ReStore in Putnam, Connecticut until January 31, 2014 at monthly payments of \$1,200. In October 2013 the Organization signed a lease for new space located in Plainfield, Connecticut for the Eastern Windham County ReStore with payments beginning January 1, 2014. The lease requires annual rent payments beginning at \$48,924 plus reimbursement for sewer and water and property taxes through September 2016.

Rent expense under these leases amounted to approximately \$114,046 for the year ended June 30, 2014.

The future minimum lease payments are as follows:

2015	\$123,924
2016	92,674
2017	<u>12,231</u>
	<u>\$228,829</u>

11. 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 contribution to HFHI for the year ended June 30, 2014 amounted to \$11,795.

12. Subsequent Events

In September 2014 the Organization was awarded reservation of tax credits in the amount of \$347,252 from Connecticut Housing Finance Authority under the Housing Tax Credit Contribution Program to be contributed by Connecticut Light & Power. The money is to be utilized for the development of six homes in eastern Connecticut.

In addition, the Organization was awarded a \$375,000 grant from the State of Connecticut, in September 2014, to be utilized to develop ten new affordable housing units in Habitat's service area.

13. Contingency

At times, HFH sells mortgages receivable to the Connecticut Housing Finance Authority (CHFA). The agreements underlying the sales of receivables contain provisions that in the event a loan is delinquent by ninety (90) days or more, CHFA can require HFH to repurchase the delinquent mortgage at 70% of the then outstanding balance. The outstanding balance of mortgages receivable previously sold to CHFA is approximately \$282,700 at June 30, 2014.