

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

FINANCIAL REPORT

JUNE 30, 2017

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

FINANCIAL REPORT

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INDEPENDENT AUDITORS' REPORT

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, 2017, and the related statement of activities and changes in net assets, 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. 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, 2017, 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.

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity of Eastern Connecticut, Inc.'s 2016 financial statements, and our report dated November 3, 2016, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2016, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of state awards is presented for purposes of additional analysis as required by the State Single Audit Act and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of state awards is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued a report dated December 6, 2017, on our consideration of Habitat for Humanity of Eastern Connecticut, Inc.'s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing* in considering Habitat for Humanity of Eastern Connecticut, Inc.'s internal control over financial reporting and compliance.

Carter, Hayes + Associates, P.C.

Hamden, Connecticut
December 6, 2017

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2017

(With Comparative Totals for Year ended June 30, 2016)

ASSETS

	<u>2017</u>	<u>2016</u>
ASSETS		
Cash	\$ 746,152	\$ 328,089
Grants and sponsorships receivable	260,185	3,814
Non-interest bearing mortgage loans, net of unamortized discounts of \$1,754,368 in 2017 and \$1,742,908 in 2016	1,741,071	1,713,362
Property held for development	679,911	923,055
Construction in progress	753,599	492,858
Prepaid expenses and other current assets	56,053	77,389
Property and equipment, net	<u>324,261</u>	<u>320,177</u>
	<u>\$ 4,561,232</u>	<u>\$ 3,858,744</u>

LIABILITIES AND NET ASSETS

	<u>2017</u>	<u>2016</u>
LIABILITIES		
Accounts payable	\$ 41,273	\$ 48,118
Accrued expenses	26,093	36,628
Mortgages and notes payable	990,896	857,619
Lines of credit	131,785	84,500
Escrows held	<u>3,661</u>	<u>2,012</u>
	<u>1,193,708</u>	<u>1,028,877</u>
 NET ASSETS		
Unrestricted	3,188,168	2,615,233
Temporarily restricted	<u>179,356</u>	<u>214,634</u>
	<u>3,367,524</u>	<u>2,829,867</u>
	<u>\$ 4,561,232</u>	<u>\$ 3,858,744</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.
STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS
YEAR ENDED JUNE 30, 2017

(With Comparative Totals for Year ended June 30, 2016)

		Temporarily	Totals	
	Unrestricted	Restricted	2017	2016
SUPPORT AND REVENUES				
Contributions and grants	\$ 908,507	\$ 264,156	\$ 1,172,663	\$ 495,151
In-kind donations	220,188	-	220,188	455,640
Transfers to homeowners	300,000	-	300,000	453,000
Restore income	694,101	-	694,101	637,750
Mortgage loan discount amortization	123,177	-	123,177	94,168
Revenue from second mortgage	63,000	-	63,000	-
Special events, net revenue	17,694	-	17,694	9,455
Interest income	9	-	9	9
Loss on sale of assets	(54,397)	-	(54,397)	(8,330)
Miscellaneous	837	-	837	2,637
Net assets released from restrictions	<u>299,434</u>	<u>(299,434)</u>	<u>-</u>	<u>-</u>
	<u>2,572,550</u>	<u>(35,278)</u>	<u>2,537,272</u>	<u>2,139,480</u>
EXPENSES				
Program				
Construction and mortgage discounts	1,305,566	-	1,305,566	1,401,777
Restore	537,676	-	537,676	473,648
Supporting services				
General and administrative	71,440	-	71,440	72,981
Fundraising	<u>84,933</u>	<u>-</u>	<u>84,933</u>	<u>76,375</u>
	<u>1,999,615</u>	<u>-</u>	<u>1,999,615</u>	<u>2,024,781</u>
CHANGES IN NET ASSETS	572,935	(35,278)	537,657	114,699
NET ASSETS, beginning of year	<u>2,615,233</u>	<u>214,634</u>	<u>2,829,867</u>	<u>2,715,168</u>
NET ASSETS, end of year	<u><u>\$ 3,188,168</u></u>	<u><u>\$ 179,356</u></u>	<u><u>\$ 3,367,524</u></u>	<u><u>\$ 2,829,867</u></u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2017

(With Comparative Totals for Year ended June 30, 2016)

	Program Services				Supportive Services			Total expenses	
	Construction	Mortgage Discounts	Restore	Total	General and Administrative	Fundraising	Total	2017	2016
Personnel Expenses:									
Salaries	\$ 265,803	\$ -	\$191,976	\$ 457,779	\$ 15,805	\$57,667	\$ 73,472	\$ 531,251	\$ 496,224
Payroll taxes and benefits	<u>45,961</u>	<u>-</u>	<u>39,283</u>	<u>85,244</u>	<u>7,288</u>	<u>12,335</u>	<u>19,623</u>	<u>104,867</u>	<u>82,154</u>
Total salaries and related benefits	311,764	-	231,259	543,023	23,093	70,002	93,095	636,118	578,378
Cost of homes transferred	632,385	-	-	632,385	-	-	-	632,385	649,700
Occupancy costs	9,849	-	199,864	209,713	4,169	-	4,169	213,882	188,552
Mortgage discounts	-	134,637	-	134,637	-	-	-	134,637	212,390
Insurance	37,778	-	23,128	60,906	916	2,153	3,069	63,975	68,079
Construction/program expenses	32,162	-	15,204	47,366	-	-	-	47,366	67,689
Fees and permits	9,556	-	10,732	20,288	19,878	410	20,288	40,576	38,654
Depreciation	14,649	-	19,109	33,758	1,267	-	1,267	35,025	35,687
Professional fees	27,657	-	-	27,657	4,850	-	4,850	32,507	34,557
Office expenses	13,624	-	2,943	16,567	11,720	5,091	16,811	33,378	28,973
Advertising and printing	10,083	-	9,431	19,514	36	5,976	6,012	25,526	27,343
Travel and meetings	18,826	-	14,908	33,734	1,657	1,115	2,772	36,506	24,521
Miscellaneous	3,131	-	5,888	9,019	2,773	186	2,959	11,978	22,980
Interest expense	31,411	-	-	31,411	501	-	501	31,912	22,686
Tithe to Habitat International	13,936	-	-	13,936	-	-	-	13,936	12,907
Telephone	<u>4,118</u>	<u>-</u>	<u>5,210</u>	<u>9,328</u>	<u>580</u>	<u>-</u>	<u>580</u>	<u>9,908</u>	<u>11,685</u>
	<u>\$1,170,929</u>	<u>\$134,637</u>	<u>\$537,676</u>	<u>\$1,843,242</u>	<u>\$ 71,440</u>	<u>\$84,933</u>	<u>\$156,373</u>	<u>\$1,999,615</u>	<u>\$2,024,781</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2017

(With Comparative Totals for Year ended June 30, 2016)

	2017	2016
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 537,657	\$ 114,699
Adjustments to reconcile increase in net assets to net cash used in operating activities:		
Depreciation	35,025	35,687
Loss on sale of assets	54,397	8,330
Mortgages transferred to homeowners subject to non-interest bearing advances	(165,363)	(240,610)
Mortgage loan discount amortization	(123,177)	(94,168)
Donated equipment	(2,300)	(3,400)
(Increase) decrease in:		
Grants and sponsorships receivable	(256,371)	132,562
Property held for development	165,100	(389,263)
Construction in progress	(260,741)	91,375
Prepaid expenses and other current assets	21,336	(10,933)
Increase (decrease) in:		
Accounts payable	(6,845)	(11,366)
Accrued expenses	(10,535)	22,176
Escrows held	1,649	(4,812)
<i>Net cash used in operating activities</i>	(10,168)	(349,723)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(27,732)	(5,680)
Proceeds from sale of assets	27,000	400
Collection of mortgages receivable	260,831	128,487
<i>Net cash provided by investing activities</i>	260,099	123,207
CASH FLOWS FROM FINANCING ACTIVITIES		
Principal repayments on long term debt	(67,153)	(48,821)
Proceeds from long term debt	188,000	268,166
Proceeds from (repayments of) lines of credit, net	47,285	(15,500)
<i>Net cash provided by financing activities</i>	168,132	203,845
NET INCREASE (DECREASE) IN CASH	418,063	(22,671)
CASH, beginning	328,089	350,760
CASH, ending	\$ 746,152	\$ 328,089

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.

STATEMENT OF CASH FLOWS, Continued

YEAR ENDED JUNE 30, 2017

(With Comparative Totals for Year ended June 30, 2016)

	<u>2017</u>	<u>2016</u>
SUPPLEMENTAL DISCLOSURES OF CASH		
FLOW INFORMATION:		
Operating activities reflect cash paid during the period for:		
Interest	<u>\$ 31,912</u>	<u>\$ 22,980</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH		
INVESTING ACTIVITY:		
Issuance of non-interest bearing mortgage loans	\$ 300,000	\$ 453,000
Discounts on non-interest bearing mortgage loans	<u>(134,637)</u>	<u>(212,390)</u>
Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 165,363</u>	<u>\$ 240,610</u>
Purchase of equipment	\$ 12,877	\$ 8,750
Note payable	<u>(12,430)</u>	<u>(8,750)</u>
Cash paid	<u>\$ 447</u>	<u>\$ -</u>

See Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2017

1. Nature of Organization and Significant Accounting Policies

Nature of Organization

Habitat for Humanity of Eastern Connecticut, Inc. (“Habitat”) is a tax-exempt, not-for-profit organization, non-stock corporation 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, 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

Habitat classifies its net assets, revenues and gains, and expenses as unrestricted or temporarily restricted on the absence or existence of donor-imposed restrictions. These classifications are defined as follows:

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.

Recognition of Support and Revenue

Grants and Contracts

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. Grant receipts in excess of revenues recognized are presented as deferred revenue.

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

NOTES TO FINANCIAL STATEMENTS, Continued

Contributions

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.

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.

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.

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.

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

NOTES TO FINANCIAL STATEMENTS, Continued

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 years ended June 30, 2017 and 2016, donated materials, properties and services amounted to \$220,188 and \$455,640, 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.

Habitat files tax returns in the United States. Habitat 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. Habitat has no open tax years prior to June 30, 2014. Habitat'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. Habitat collects that sales tax from customers and remits the entire amount to the State. Habitat'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 \$25,526 and \$27,343 for the years ended June 30, 2017 and 2016, respectively. Advertising costs consist primarily of print media.

Disclosure of Subsequent Events

Management has monitored and evaluated any subsequent events through December 6, 2017, the date the financial statements were available to be issued.

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

NOTES TO FINANCIAL STATEMENTS, Continued

2. Concentrations

Cash Investments

The Organization places its cash deposits with high credit quality financial institutions and such deposits may exceed federal depository insurance limits of \$250,000 per financial institution for short periods of time. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2017 the uninsured cash balance amounted to approximately \$97,000.

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, 2017 consisted of the following:

235 Yetter Rd, Mystic	\$174,632
7 Kileen Road, Montville	170,261
127 Jefferson St., New London	161,687
1 Richard Ave, Griswold	156,927
511 Sterling Rd, Sterling	<u>90,092</u>
	<u>\$753,599</u>

4. Mortgages Receivable

Mortgages receivable consist of forty-five (45) non-interest bearing loans at June 30, 2017 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 third party servicers (Liberty Bank and Capital for Change) for all except one of the mortgages, which is currently serviced by Habitat.

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

NOTES TO FINANCIAL STATEMENTS, Continued

The non-interest bearing mortgages have been discounted at various rates ranging from 4.16% to 8.55% based on the Freddie Mac rate plus .5% 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 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, 2017.

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 lesser 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 mortgage, sell or transfer ownership, or default on the mortgage. Based on the Organization's past loan history, the second mortgage payoff is considered infrequent and remote by Habitat, and therefore no receivable has been recorded in the financial statements.

Due to a fire that destroyed a homeowner's home and the resulting insurance proceeds received, Habitat recognized \$63,000 of revenue under a second mortgage during the year ended June 30, 2017.

Mortgages receivable at June 30, 2017 consisted of the following:

Due in less than one year	\$ 150,052
Due in one to five years	547,654
Thereafter	<u>2,797,733</u>
	3,495,439
Less unamortized discount	<u>1,754,368</u>
	<u>\$1,741,071</u>

5. Property and Equipment

Property and Equipment consisted of the following at June 30, 2017:

Land and buildings	\$268,645
Equipment and vehicles	144,960
ReStore leaseholds	148,386
Furniture and fixtures	<u>19,214</u>
	581,205
Less accumulated depreciation	<u>256,944</u>
	<u>\$324,361</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

6. Mortgages and Notes Payable

Long-term debt at June 30, 2017 consisted of the following:

Dime Bank – four (4) notes payables due in monthly installments ranging from \$479 to \$725, including interest ranging from 4% to 4.25%, due on various dates through August 2041, secured by mortgage receivables	\$409,672
Connecticut Housing Finance Authority – eleven (11) non-interest bearing notes payable due in monthly installments ranging from \$212 to \$417, due on various dates through July 2036, secured by mortgage receivables	348,324
Chelsea Bank - two (2) notes payable due in monthly installments of \$490 and \$612, including interest at 4.5%, due on various dates through November 2045, secured by mortgage receivables	193,203
HFHI for Self- Help Opportunity Program (SHOP) - seven (7) non-interest bearing notes payable due in monthly installments ranging from \$19 to \$218, due on various dates through June 2020, unsecured	22,967
Spafford Leasing - note payable due in monthly installments of \$249, including interest at 7.56%, due October 2021, secured by equipment	11,209
Abel Womack – note payable due in monthly installments of \$166, including interest at 5.218%, due June 2020, secured by equipment	<u>5,521</u>
	<u>\$990,896</u>

Aggregate maturities required on long-term debt at June 30, 2017 are as follows:

Year ending <u>June 30,</u>	
2018	\$ 65,497
2019	62,103
2020	56,490
2021	52,940
2022	49,237
Thereafter	<u>704,629</u>
	<u>\$990,896</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

7. Lines of Credit

Habitat has available a line of credit with Liberty Bank in the amount of \$250,000 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% (3.25% at June 30, 2017). There was \$108,785 outstanding under this line of credit as of June 30, 2017. This agreement remains in effect until Liberty Bank demands payment.

Habitat 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% (3.25% at June 30, 2017). There were no amounts outstanding under this line of credit as of June 30, 2017. This agreement expires August 2018.

In addition, Habitat has available a line of credit with Putnam Bank in the amount of \$25,000 which is secured by property located at 377 Broad Street, New London, Connecticut. Amounts outstanding under this arrangement bear interest at the Wall Street Journal's prime rate less .5% (3.75% at June 30, 2017). There was \$23,000 outstanding under this line of credit as of June 30, 2017. This agreement expires December 2018.

8. Temporarily Restricted Net Assets

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

9. 401(k) Plan

Habitat 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. Habitat has the option of making an annual discretionary contribution. Matching contributions amounted to \$9,297 and \$6,224 for the years ended June 30, 2017 and 2016, respectively. No discretionary contributions were made for the years ended June 30, 2017 and 2016.

10. Operating Lease

Habitat leases two spaces for the operation of its "Restore" program to sell used donated building products in a retail environment.

Habitat leases 10,000 square feet of space in Waterford, Connecticut. The term of the lease was for three years commencing February 1, 2013 and required annual rent payments of \$75,000. Habitat has four options for additional terms of three years each. Annual rent for each of the three year option periods are as follows: \$76,500 February 1, 2016 to January 31, 2019; \$78,400 February 1, 2019 to January 31, 2022; \$80,400 February 1, 2022 to January 31, 2025; \$82,400 February 1, 2015 to January 31, 2028. Habitat has exercised the option for the period February 1, 2016 to January 31, 2019.

Habitat leases space for an additional store located in Plainfield, Connecticut for the Eastern Windham County ReStore. The term of the lease is for three years commencing October 1, 2013 and requires annual rent payments of \$48,924, plus reimbursement for

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

NOTES TO FINANCIAL STATEMENTS, Continued

sewer, water and property taxes through September 2016. Habitat has four options for additional terms of three years each. Annual rent for each of the three year option periods are as follows: \$55,080 October 1, 2016 to September 30, 2019; \$56,184 October 1, 2019 to September 30, 2022; \$57,312 October 1, 2022 to September 30, 2025; \$58,452 October 1, 2015 to September 30, 2028. Habitat has exercised the option for the period October 1, 2016 to September 30, 2019.

Rent expense under these leases amounted to approximately \$142,100 and \$136,600 for the years ended June 30, 2017 and 2016, respectively

The future minimum lease payments are as follows:

<u>Year ending June 30,</u>	
2018	\$131,580
2019	99,705
2020	<u>13,770</u>
	<u>\$245,055</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 contributions to HFHI for the years ended June 30, 2017 and 2016 amounted to \$13,936 and \$12,907, respectively.

12. Contingency

At times, Habitat 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 Habitat to repurchase the delinquent mortgage at 70% of the then outstanding balance. The outstanding balance of mortgages receivable previously sold to CHFA is approximately \$475,800 at June 30, 2017.

In addition, Habitat guaranteed payment of a loan a homeowner has with a bank. The original amount of the loan was \$50,000 and is secured by the property. The outstanding balance of the loan was \$29,841 at June 30, 2017.

13. Subsequent Event

In October 2017, Habitat received a donation of approximately 17 acres of vacant land in Ledyard with an appraised value of \$665,000.

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

SCHEDULE OF EXPENDITURES OF STATE AWARDS

FOR THE YEAR ENDED JUNE 30, 2017

<u>Grantor/Program Title</u>	<u>State Grant Program CORE-CT Number</u>	<u>Expenditures</u>
Connecticut Department of Housing		
<i>Affordable Housing (Flexible Program)</i>	12064-DOL46920-40238-150	<u>\$375,000</u>
<i>Total expenditures of state awards</i>		<u>\$375,000</u>

Notes to Schedule

The accompanying Schedule of Expenditures of State Awards includes state grant activity of Habitat for Humanity of Eastern Connecticut, Inc. under programs of the State of Connecticut for the fiscal year ending June 30, 2017. Department of Housing of the State of Connecticut has provided an award through a grant and other authorization in accordance with the General Statutes of the State of Connecticut. This award funds Habitat’s program to construct housing for low-income individuals.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of Habitat for Humanity of Eastern Connecticut, Inc. conform to accounting principles generally accepted in the United States of America as applicable to *not-for-profit agencies*.

The information in the Schedule of Expenditures of State Awards is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

The expenditures reported on the Schedule of Expenditures of State Awards are reported on the accrual basis of accounting. In accordance with Section 4-236-22 of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule of Expenditures of State Awards.

2. Subrecipients

Habitat for Humanity of Eastern Connecticut, Inc. has not passed through any awards to subrecipients.

**INDEPENDENT AUDITORS' REPORT ON INTERNAL
CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER
MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity of Eastern Connecticut, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2017, and the related statement of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated December 6, 2017.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered Habitat for Humanity of Eastern Connecticut, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Eastern Connecticut, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of the Habitat for Humanity of Eastern Connecticut, Inc.'s internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Habitat for Humanity of Eastern Connecticut, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Organization's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Organization's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Carter, Hayes + Associates, P.C.

Hamden, Connecticut
December 6, 2017

**INDEPENDENT AUDITORS' REPORT ON COMPLIANCE
FOR A MAJOR STATE PROGRAM AND ON
INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY THE STATE SINGLE AUDIT ACT**

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

Report on Compliance for A Major State Program

We have audited Habitat for Humanity of Eastern Connecticut, Inc.'s compliance with the types of compliance requirements described in the Office of Policy and Management *Compliance Supplement* that could have a direct and material effect on Habitat for Humanity of Eastern Connecticut, Inc.'s major state program for the year ended June 30, 2017. Habitat for Humanity of Eastern Connecticut, Inc.'s major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable to its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance of Habitat for Humanity of Eastern Connecticut, Inc.'s major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Habitat for Humanity of Eastern Connecticut, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for a major state program. However, our audit does not provide a legal determination of Habitat for Humanity of Eastern Connecticut, Inc.'s compliance.

Opinion on a Major State Program

In our opinion, Habitat for Humanity of Eastern Connecticut, Inc. complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2017.

Report on Internal Control over Compliance

Management of Habitat for Humanity of Eastern Connecticut, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Habitat for Humanity of Eastern Connecticut, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on a major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for a major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Habitat for Humanity of Eastern Connecticut, Inc.'s internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a state program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a state program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a state program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Carter, Hayes + Associates, P.C.

Hamden, Connecticut
December 6, 2017

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

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2017

SUMMARY OF AUDITORS' RESULTS

Financial Statements

- Type of report the auditor issued on whether the financial statements audited were prepared in accordance with GAAP: unmodified
- Internal control over financial reporting:
 - Material weakness(es) identified? __ yes X no
 - Significant deficiency(ies) identified? __ yes X none reported
- Noncompliance material to financial statements noted? __ yes X no

State Awards

- Internal control over major state programs:
 - Material weakness(es) identified? __ yes X no
 - Significant deficiency(ies) identified? __ yes X none reported
- Type of auditor's report issued on compliance for major state programs: unmodified
- Any findings disclosed that are required to be reported in accordance with Section 4-236-24 of the regulations to the State Single Audit Act? __ yes X no
- Dollar threshold used to distinguish between Type A and Type B programs: \$100,000
- The following schedule reflects the major program included in the audit:

State Grantor and Program	CORE-CT Number	Expenditures
Department of Housing: <i>Affordable Housing (Flexible Program)</i>	12064-DOH46920-40238-150	\$375,000