

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Independent Auditors' Report

Financial Statements

June 30, 2011 and 2010

HARTFORD AREA HABITAT FOR HUMANITY, INC.

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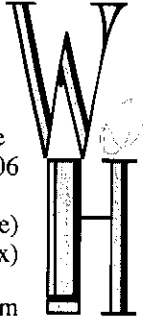
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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hartford Area Habitat for Humanity, Inc.

We have audited the accompanying statements of financial position of Hartford Area Habitat for Humanity, Inc. as of June 30, 2011 and 2010, and the related statements of activities and changes in net assets, functional expenses and cash flows for the years then ended. These financial statements are the responsibility of the Organization's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Hartford Area Habitat for Humanity, Inc., as of June 30, 2011 and 2010, and the changes in its net assets, and its cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Whittlesey & Hadley, P.C.

January 17, 2012

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Statements of Financial Position

June 30, 2011 and 2010

	2011	(Restated) 2010
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,162,738	\$ 1,495,831
Grants receivable	285,291	171,484
Other receivables	82,662	5,812
Current portion of mortgage notes receivable	486,948	470,129
Inventory	765,400	858,110
Prepaid expenses	1,406	18,969
Total current assets	<u>2,784,445</u>	<u>3,020,335</u>
Property and equipment:		
Land and building	185,707	178,235
Furniture, fixtures and equipment	273,269	273,626
Less: accumulated depreciation	(252,296)	(229,166)
Total property and equipment	<u>206,680</u>	<u>222,695</u>
Other assets:		
Mortgage notes receivable, net of mortgage discount of \$4,663,303 and \$4,639,130, respectively	3,980,519	3,871,450
Other real estate owned	194,707	19,743
Deposits and escrows	53,942	61,322
Total other assets	<u>4,229,168</u>	<u>3,952,515</u>
Total assets	<u>\$ 7,220,293</u>	<u>\$ 7,195,545</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	\$ 213,642	\$ 235,086
Accounts payable and accrued expenses	117,727	126,965
Advance payments and downpayments	14,750	172,116
Total current liabilities	<u>346,119</u>	<u>534,167</u>
Long-term debt, net of current portion and CHFA mortgage discount of \$196,576 and \$220,594, respectively	<u>1,510,161</u>	<u>1,683,712</u>
Total liabilities	<u>1,856,280</u>	<u>2,217,879</u>
Net assets:		
Unrestricted	4,704,672	4,641,656
Temporarily restricted	659,341	336,010
	<u>5,364,013</u>	<u>4,977,666</u>
Total liabilities and net assets	<u>\$ 7,220,293</u>	<u>\$ 7,195,545</u>

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2011

	Unrestricted	Temporarily Restricted	Total
Revenue and other support:			
Property transferred to homeowners	\$ 790,495	\$ -	\$ 790,495
Contributions	496,218	744,820	1,241,038
Grants	563,091	-	563,091
Imputed interest on mortgage receivables	449,779	-	449,779
Other income	71,258	-	71,258
Interest income	3,923	-	3,923
Satisfaction of program restrictions	421,489	(421,489)	-
Total revenue and other support	<u>2,796,253</u>	<u>323,331</u>	<u>3,119,584</u>
Expenses:			
Program services	2,387,343	-	2,387,343
General and administrative	228,596	-	228,596
Fundraising	117,298	-	117,298
Total expenses	<u>2,733,237</u>	<u>-</u>	<u>2,733,237</u>
Change in net assets	63,016	323,331	386,347
Net assets - beginning of year	<u>4,641,656</u>	<u>336,010</u>	<u>4,977,666</u>
Net assets - end of year	<u>\$ 4,704,672</u>	<u>\$ 659,341</u>	<u>\$ 5,364,013</u>

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Statement of Activities and Changes in Net Assets

For the year ended June 30, 2010

(Restated)

	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>
Revenue and other support:			
Property transferred to homeowners	\$ 914,578	\$ -	\$ 914,578
Contributions	668,941	594,763	1,263,704
Grants	796,894	-	796,894
Imputed interest on mortgage receivables	316,224	-	316,224
Other income	93,435	-	93,435
Interest income	12,640	-	12,640
Satisfaction of program restrictions	585,357	(585,357)	-
Total revenue and other support	<u>3,388,069</u>	<u>9,406</u>	<u>3,397,475</u>
Expenses:			
Program services	2,420,444	-	2,420,444
General and administrative	221,656	-	221,656
Fundraising	276,812	-	276,812
Total expenses	<u>2,918,912</u>	<u>-</u>	<u>2,918,912</u>
Change in net assets	469,157	9,406	478,563
Net assets - beginning of year	<u>4,172,499</u>	<u>326,604</u>	<u>4,499,103</u>
Net assets - end of year	<u>\$ 4,641,656</u>	<u>\$ 336,010</u>	<u>\$ 4,977,666</u>

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Statements of Cash Flows

For the years ended June 30, 2011 and 2010

	2011	(Restated) 2010
Cash flows from operating activities:		
Change in net assets	\$ 383,346	\$ 478,563
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	26,495	29,108
Loss on disposal of equipment	639	-
Mortgage notes receivable discount	24,173	313,534
CHFPA mortgage discount	24,018	(7,954)
Changes in assets - (increase)/decrease:		
Inventory	92,710	(91,577)
Prepaid expenses	17,563	(7,241)
Grants receivable	(113,807)	259,202
Other receivables	(76,850)	57,383
Deposits and escrows	7,380	900
Changes in liabilities - increase/(decrease):		
Accounts payable and accrued expenses	(9,238)	(57,490)
Advance payments and downpayments	(157,366)	159,830
Net cash provided by operating activities	219,063	1,134,258
Cash flows from investing activities:		
New loans originated	(777,250)	(1,029,328)
Loan payments	452,225	558,511
Purchase of equipment	(11,119)	(18,473)
Net cash used in investing activities	(336,144)	(489,290)
Cash flows from financing activities:		
Proceeds from notes payable	13,056	121,203
Payments on notes payable	(232,069)	(233,643)
Net cash used in financing activities	(219,013)	(112,440)
Increase/(decrease) in cash and cash equivalents	(336,094)	532,528
Cash and cash equivalents - beginning of year	1,495,831	963,303
Cash and cash equivalents - end of year	\$ 1,159,738	\$ 1,495,831
Supplementary information		
Interest paid	\$ 75,543	\$ 91,921
Noncash investing activity:		
Mortgage discount	\$ 473,954	\$ 594,165

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses

For the year ended June 30, 2011

	Program Services	Management and General	Fundraising	Total
Cost of homes sold	\$ 1,038,095	\$ -	\$ -	\$ 1,038,095
Other expenses:				
Auto and travel	6,889	1,914	765	9,568
Advertising	3,735	1,037	415	5,187
Development	-	-	997	997
Salaries	457,026	126,950	50,782	634,759
Payroll taxes and fringe benefits	101,231	28,120	11,248	140,599
Insurance	32,116	8,921	3,568	44,605
Miscellaneous	4,509	1,253	501	6,263
Office repairs and maintenance	6,449	1,791	717	8,957
Office administration	43,971	12,214	4,886	61,071
Other program service costs	43,564	12,101	4,840	60,505
Professional fees	30,225	8,396	3,358	41,979
Occupancy expenses	14,719	4,089	1,636	20,444
Tithe and donations to affiliates	21,515	-	-	21,515
Training and staff development	1,512	420	168	2,100
Utilities and telephone	22,610	6,281	2,512	31,403
Warranty costs	4,337	-	-	4,337
Special events	-	-	24,862	24,862
Interest	54,391	15,109	6,043	75,543
Total other expenses	<u>848,799</u>	<u>228,596</u>	<u>117,298</u>	<u>1,194,693</u>
Total expenses before mortgage discount and depreciation	1,886,894	228,596	117,298	2,232,788
Mortgage discount	473,954	-	-	473,954
Depreciation	<u>26,495</u>	<u>-</u>	<u>-</u>	<u>26,495</u>
Total expenses	<u><u>2,387,343</u></u>	<u><u>\$ 228,596</u></u>	<u><u>\$ 117,298</u></u>	<u><u>\$ 2,733,237</u></u>

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Statement of Functional Expenses

For the year ended June 30, 2010

(Restated)

	<u>Program Services</u>	<u>Management and General</u>	<u>Fundraising</u>	<u>Total</u>
Cost of homes sold	<u>\$ 1,140,032</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 1,140,032</u>
Other expenses:				
Auto and travel	7,883	2,190	876	10,949
Advertising	-	-	5,411	5,411
Development	-	-	2,419	2,419
Salaries	323,140	119,268	135,640	578,048
Payroll taxes and fringe benefits	77,088	28,444	32,347	137,879
Insurance	30,102	8,362	3,345	41,809
Miscellaneous	435	1,352	3,042	4,829
Office repairs and maintenance	7,651	2,125	850	10,626
Office administration	44,809	12,447	4,979	62,235
Other program service costs	23,645	6,568	2,627	32,840
Professional fees	17,021	14,185	39,717	70,923
Occupancy expenses	5,866	1,630	652	8,148
Tithe and donations to affiliates	25,086	-	-	25,086
Training and staff development	4,319	1,277	487	6,083
Utilities and telephone	19,525	5,424	2,169	27,118
Warranty costs	4,386	-	-	4,386
Special events	-	-	34,897	34,897
Interest	66,183	18,384	7,354	91,921
Total other expenses	<u>657,139</u>	<u>221,656</u>	<u>276,812</u>	<u>1,155,607</u>
Total expenses before mortgage discount and depreciation	1,797,171	221,656	276,812	2,295,639
Mortgage discount	594,165	-	-	594,165
Depreciation	29,108	-	-	29,108
Total expenses	<u>\$ 2,420,444</u>	<u>\$ 221,656</u>	<u>\$ 276,812</u>	<u>\$ 2,918,912</u>

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Notes to Financial Statements

For the year ended June 30, 2011

NOTE 1 - ORGANIZATION ACTIVITY

Hartford Area Habitat for Humanity, Inc. ("HAHFH"), a non-profit organization, non-stock corporation organized under Connecticut law in 1988, is located in Hartford, Connecticut. HAHFH, affiliated with Habitat for Humanity International ("HFHI") based in Americus, Georgia, builds homes for low-income individuals in the Hartford area. Purchasers, who have been approved and selected by HAHFH, volunteer their labor in partnership with HAHFH to build the house. The house is then sold to the individual at a predetermined cost which is reviewed annually by the Affiliate. Upon sale, HAHFH takes back a non-interest bearing mortgage for approximately 99% of the sales price. These mortgages are usually long term, ranging from twenty to thirty years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Hartford Area Habitat for Humanity, Inc. is presented to assist in understanding HAHFH's financial statements. The financial statements and accompanying notes are representations of HAHFH's management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

Basis of Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HAHFH and changes therein are classified and reported as follows:

Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. HAHFH treats all support that is restricted by the donor as unrestricted support when the receipt of the support and the expiration of the restriction occur in the same period.

Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, with actions of HAHFH and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

Contributions - Contributions, including unconditional promises to give, are recorded as received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give, due in the subsequent years, are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Donated Materials and Services - Donated property, including building materials, is recorded as a contribution at a discounted retail value when received. HAHFH receives donated services from a variety of unpaid volunteers who assist in building the houses. No amounts have been recognized in the accompanying statement of activities for these services because the criteria for recognition of such volunteer efforts under the Not-for-Profit Entities topic of the FASB Accounting Standards Codification (FASB ASC 958) have not been satisfied.

In-kind contributions consist of tools donated by The Stanley Works and then sold in the Stanley Store, furnaces donated by Carrier Corporation, and discounts on services provided by various contractors. The total amount of in-kind contributions recognized for the years ended June 30, 2011 and 2010, was \$51,947 and \$101,040, respectively.

Inventories - Inventories on properties constructed for sale are valued using specific identification.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Tax Status - HAHFH is a not-for-profit organization as described under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal or state income taxes. In addition, HAHFH qualifies for the charitable contribution deduction as provided in Section 170 of the Internal Revenue Code. HAHFH implemented the accounting guidance for uncertainty in income taxes. Tax positions initially need to be recognized in the financial statements when it is more-likely-than-not that the position will be sustained upon examination by the tax authorities. As of June 30, 2011 and 2010, HAHFH has no uncertain tax positions that qualify for either recognition or disclosure in the financial statements. Management believes that it has appropriate support for income tax positions taken in its tax returns. Currently, HAHFH's federal informational returns for fiscal year 2008-2010 remain open to inspection by the IRS.

Property and Equipment - All acquisitions or donations of property and equipment are recorded at cost, or their fair market value at the date of the gift. Depreciation is provided for over the estimated useful lives of the assets on a straight-line basis. The respective estimated useful lives are five to thirty-nine years. HAHFH follows the practice of capitalizing all expenditures for property and equipment in excess of \$500.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents - HAHFH considers cash on deposit with financial institutions, money market funds, and other investments with an original maturity of three months or less to be cash equivalents. HAHFH maintains its cash in bank accounts, which, at times, may exceed federally insured limits. HAHFH has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

Other Real Estate Owned - Other real estate owned is carried at the lower of fair value or recorded investment in the loan.

Subsequent Events Measurement Date - HAHFH monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for fiscal year 2011 through January 17, 2012, the date on which the financial statements were available to be issued.

Reclassifications - Certain prior year amounts have been reclassified to conform to the current year presentation.

Prior Period Adjustment - The 2010 financial statements have been restated to reflect the overstatement of inventory of \$71,036 as of June 30, 2010 which was discovered by Management during the current year. Accordingly, adjustments have been made to decrease the 2010 change in net assets by \$71,036.

NOTE 3 - INVENTORIES

At June 30, 2011 and 2010, respectively, the residential units in inventory consisted of the following:

	2011	2010
Construction in progress and completed units that are unoccupied	\$ 269,985	\$ 390,810
Land	495,415	467,300
Total inventory	<u>\$ 765,400</u>	<u>\$ 858,110</u>

NOTE 4 - OTHER REAL ESTATE OWNED

Other real estate owned is comprised of loans in the process of foreclosure. The balance of the first mortgages of these loans as of June 30, 2011 and 2010, is \$194,707 and \$19,743, respectively. Properties are foreclosed upon after the homeowner has become seriously delinquent in their loan payments and all attempts to work with the homeowner have failed.

NOTE 5 - MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable represents non-interest bearing amounts due from individuals who have purchased homes constructed by HAHFH. These amounts are to be paid over terms ranging from twenty to thirty years as follows:

	<u>2011</u>	<u>2010</u>
Mortgage notes receivable	\$ 9,130,770	\$ 8,980,709
Less: unamortized discount on non-interest bearing mortgage notes receivable	<u>(4,663,303)</u>	<u>(4,639,130)</u>
	4,467,467	4,341,579
Less: current portion	<u>(486,948)</u>	<u>(470,129)</u>
	<u>\$ 3,980,519</u>	<u>\$ 3,871,450</u>

Since the above referred mortgage notes are non-interest bearing, the net present value of each of these notes is less than face value. The net present value of these notes (at an imputed interest rate ranging from 7.69% to 8.48%) is \$4,467,467 and \$4,341,579 at June 30, 2011 and 2010, respectively. The servicing of these mortgages is performed by a bank. The scheduled maturities of these notes are as follows:

Year ended June 30,

2012	\$ 486,948
2013	486,948
2014	486,948
2015	486,948
2016	486,948
Thereafter	<u>6,696,030</u>
	<u>\$ 9,130,770</u>

HAHFH sells homes based on its predetermined cost, which is reviewed annually by the Affiliate, and concurrently, HAHFH also holds a second and third mortgage on the difference between the fair market value and the selling price. The purpose of the second and third mortgage is to insure that the purchaser retains possession of the property for a given period of time and does not sell to personally benefit from the difference between the purchased price and the fair market value. The second and third mortgages are forgiven ratably between six and thirty years after the purchase of the homes. If the homeowner sells prior to the time period of the second and/or third mortgage being ratably forgiven, the balance of the mortgage will be repaid from the sales price. The balance of these second and third mortgages is \$4,621,970 and \$4,380,092 as of June 30, 2011 and 2010, respectively. It is anticipated that none of these mortgages will be required to be repaid. As a result, these mortgages have not been recorded as of June 30, 2011 and 2010, respectively.

NOTE 6 - DEPOSITS AND ESCROWS

Deposits consist of down payments on home purchases and escrows consist of loan payments on AAR Program Notes paid in advance. Down payments represent funds received from families before they move in as a commitment to purchase a house. In the event a family decides not to purchase the home, the down payment will be returned to the individuals and the mortgage payments will be considered rent to HAHFH according to a use and occupancy agreement. HAHFH borrows funds from HFHI's Accelerated Asset Recovery (AAR) Program. As a condition of the program, HFHI reduces the amount of funds lent to HAHFH by one scheduled loan payment.

NOTE 7 - LONG-TERM DEBT

As of June 30, 2011 and 2010, long-term debt consisted of the following:

	Maturity Date	Interest Rate	Monthly Payments	Outstanding Balance	
				June 30, 2011	June 30, 2010
Habitat for Humanity International SHOP/HUD Notes	07/01/2011	0.000%	\$ 559	\$ 3,318	\$ 10,962
	01/01/2012	0.000%	284	5,121	9,097
	01/01/2013	0.000%	444	10,948	16,044
	07/01/2013	0.000%	729	8,897	17,021
	07/01/2015	0.000%	208	10,000	10,000
	07/01/2015	0.000%	156	7,500	7,500
	07/01/2016	0.000%	405	21,388	8,333
				<u>67,172</u>	<u>78,957</u>
AAR Program	12/01/2010	3.250%	2,450	-	14,522
	12/31/2011	3.630%	1,844	10,920	32,177
	03/01/2013	3.890%	3,000	60,625	93,469
	12/01/2014	4.000%	3,922	151,645	192,937
				<u>223,190</u>	<u>333,105</u>
Windsor Federal Savings	06/01/2019	6.000%	882	67,221	73,637
	01/01/2023	4.000%	887	99,566	106,029
	08/01/2024	4.000%	313	38,387	40,560
	02/01/2031	4.000%	434	70,876	73,202
	04/01/2031	4.000%	859	140,730	145,305
	12/01/2031	4.000%	433	70,658	72,976
	04/01/2032	4.000%	934	158,811	163,564
	07/01/2032	4.000%	983	166,635	171,655
				<u>812,884</u>	<u>846,928</u>
First Niagara	04/24/2027	6.000%	1,290	158,126	163,898
Connecticut Housing Finance Authority (CHFA)	08/01/2010	0.000%	182	-	427
	09/01/2010	0.000%	183	-	551
	12/01/2012	0.000%	371	6,358	10,378
	10/01/2013	0.000%	196	5,166	7,207
	06/01/2014	0.000%	204	6,802	8,856
	11/01/2014	0.000%	222	8,409	10,597
	02/01/2018	0.000%	421	28,613	32,142
	04/01/2019	0.000%	250	19,411	21,386
	10/01/2019	0.000%	189	15,424	16,885
	11/01/2019	0.000%	188	15,503	16,949
	06/01/2023	0.000%	206	22,205	23,530
	10/01/2023	0.000%	316	34,904	36,902
	08/01/2024	0.000%	213	24,511	25,806
	09/01/2024	0.000%	279	32,343	34,023
	10/01/2024	0.000%	185	21,596	22,709
	05/01/2026	0.000%	225	28,370	29,617
	12/01/2030	0.000%	272	40,640	41,843
	11/01/2031	0.000%	310	47,474	48,780
	07/01/2032	0.000%	329	51,215	52,565
	10/01/2034	0.000%	332	53,486	54,757
				<u>462,430</u>	<u>495,910</u>
Total				1,723,802	1,918,798
Less: Current portion				(213,642)	(235,086)
				<u>\$ 1,510,160</u>	<u>\$ 1,683,712</u>

NOTE 7 - LONG-TERM DEBT (CONTINUED)

As the above referred CHFA notes are non-interest bearing, and are for the purpose of providing the funds needed for home construction, the net present value of each of these notes is less than face value. The net present value of these notes (at an imputed interest rate of 5.00%) is \$196,576 and \$220,594 at June 30, 2011 and 2010, respectively.

The Windsor Federal Savings note due June 1, 2019 is secured by the building. All other notes, except for the Habitat for Humanity International SHOP/HUD notes, are secured by certain pledged mortgage receivable payments.

The expected maturities of long-term debt are as follows:

<u>Year ended June 30,</u>	
2012	\$ 213,642
2013	183,715
2014	152,258
2015	121,374
2016	86,104
Thereafter	966,709
	<u>\$ 1,723,802</u>

HAHFH received funding through HFHI from HUD to complete new properties. The total of the awards received during the period ending June 30, 2011 and 2010, is \$55,552 and \$105,332. These awards are considered 75% grants and 25% noninterest bearing loans to be repaid to HFHI over a four-year period.

HAHFH received funding through Habitat for Humanity International (HFHI) from Accelerated Asset Recovery Program (AAR). Under the AAR program, affiliates pledge mortgages in exchange for a lump sum payment equal to approximately the sum of seven years worth of payments on the mortgages. Over the next seven years, the actual monthly payments from the pledged mortgages are then used to repay the money advanced to the affiliate. The affiliate must also pay interest on this amount at interest rates between 3.25% and 4.00%. The total of the funds received during the period ending June 30, 2011 and 2010 is \$0 and \$0, respectively.

NOTE 8 - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2011 and 2010, respectively, temporarily restricted net assets were subject to the following purpose restrictions:

	<u>2011</u>	<u>2010</u>
Housing construction	\$ 640,810	\$ 317,629
Education	18,531	18,381
Total temporarily restricted net assets	<u>\$ 659,341</u>	<u>\$ 336,010</u>

NOTE 9 - FUNCTIONAL EXPENSES

Expenses are charged to programs based on direct expense incurred. Any program expenses not directly chargeable are allocated to programs based on direct program employee wages to total employee wages. The expenses are broken down between program and support services.

NOTE 10 - PENSION PLAN

HAHFH provides a 401(k) plan for its employees. The eligible participant can contribute up to 20% of their total compensation up to the IRS maximum. HAHFH contributes an amount equal to 2% of cash salary and will match 100% of the employee's contribution up to 2% of the employee's compensation at the plan year end. For the years ended June 30, 2011 and 2010, HAHFH's contributions totaled \$10,565 and \$18,526, respectively. Beginning in fiscal year 2011, the employer match was terminated.

NOTE 11 - RELATED PARTY TRANSACTION

HAHFH entered into an agreement with a former member of the Board of Directors to purchase two condominium units, at a cost of \$125,000 per unit. These units are to be re-sold to Habitat homeowners. The former Board member is the developer of this condominium project. Discussions regarding the purchase of these units began while the developer was an active member of the Board of Directors.

NOTE 12 - NEW MARKET TAX CREDITS

HAHFH entered into an agreement in November 2011 whereby it will make an investment along with other Habitat affiliates, in a joint venture (HFHI-SA NMTC VI, LLC) to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will receive new markets tax credits to be applied against their federal tax liability. As a result, HAHFH will invest approximately \$2.1 million (combination of cash and work-in-process inventory) and will be able to secure a 15-year loan payable to a community development entity (an affiliate of the joint venture). The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The NMTC program provides funds to eligible organizations for investment in "qualified low-income community investment". Program compliance requirements will include the creation of a promissory note and investment in a qualified community development entity ("CDE"). Tax credit recapture is required if compliance requirements are not met over a seven-year period.

NOTE 13 - COMMITMENTS AND CONTINGENCIES

HAHFH is from time to time, subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of HAHFH.