

**Habitat for Humanity of New Castle County, Inc.**

Financial Statements  
June 30, 2011 and 2010

With  
Report of Independent Auditors

**Habitat for Humanity of New Castle County, Inc.**  
**Index to Financial Statements**  
**June 30, 2011 and 2010**

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**INDEPENDENT AUDITORS' REPORT**

To the Finance Committee of  
Habitat for Humanity of New Castle County, Inc.  
Wilmington, Delaware

We have audited the accompanying statements of financial position of Habitat for Humanity of New Castle County, Inc. (a nonprofit organization) (the "Organization") as of June 30, 2011 and 2010 and the related statements of activities 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 audits 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 Habitat for Humanity of New Castle County, 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.

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The schedule of functional expenses for the years ended June 30, 2011 and 2010, on pages 20 and 21, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Cetrulo & Morgan Group, LLC*

Wilmington, Delaware  
September 02, 2011

**Habitat for Humanity of New Castle County, Inc.**  
**Statements of Financial Position**  
**June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 3,383,000	\$ 2,483,348
Restricted cash and cash equivalents	101,653	121,427
Certificates of deposit	-	60,000
Prepaid expenses	25,408	-
Investment in joint venture HFHI-SA Leverage III, LLC	2,309,419	2,264,791
Inventory	60,244	44,988
Accounts receivable	33,712	40,865
Pledges and grants receivable, net of discount	463,643	316,415
Total current assets	<u>6,377,079</u>	<u>5,331,834</u>
Non-interest-bearing mortgage receivable:		
Gross non-interest-bearing mortgages receivable	2,964,390	5,651,860
Discount on non-interest-bearing mortgages receivable	<u>(1,752,511)</u>	<u>(3,353,499)</u>
Net non-interest-bearing mortgage receivable	<u>1,211,879</u>	<u>2,298,361</u>
Property and equipment - net	<u>695,787</u>	<u>705,974</u>
Other assets:		
Restricted cash and cash equivalents	113,380	112,414
Intangible assets	97,380	105,900
Pledges and grants receivable, net of discount	161,122	59,172
Endowment funds	238,995	86,873
Construction in progress	4,222,897	2,168,858
Total other assets	<u>4,833,774</u>	<u>2,533,217</u>
Total assets	<u>\$ 13,118,519</u>	<u>\$ 10,869,386</u>

Habitat for Humanity of New Castle County, Inc.  
 Statements of Financial Position (Continued)  
 June 30, 2011 and 2010

	<u>2011</u>	<u>2010</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 259,379	\$ 243,572
Accrued interest	1,930	-
Current maturities of capital leases	978	1,040
Current maturities of notes payable	936	-
Note payable - Cornerstone West	56,388	-
Total current liabilities	<u>319,611</u>	<u>244,612</u>
Other liabilities:		
Obligations under capital leases (net of current maturities)	1,271	2,152
Note payable to City First Capital 21, LLC	2,758,746	2,758,746
Note payable to HFHI (net of current maturities)	<u>27,939</u>	<u>7,500</u>
Total liabilities	<u>3,107,567</u>	<u>3,013,010</u>
Net assets:		
Unrestricted	9,589,627	7,581,376
Temporarily restricted	321,325	175,000
Permanently restricted	<u>100,000</u>	<u>100,000</u>
Total net assets	<u>10,010,952</u>	<u>7,856,376</u>
Total liabilities and net assets	<u>\$ 13,118,519</u>	<u>\$ 10,869,386</u>

Habitat for Humanity of New Castle County, Inc.  
Statement of Activities  
For the Year Ended June 30, 2011

	Unrestricted	Temporarily Restricted	Permanently Restricted	2011 Total
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 1,653,846	\$ 594,000	\$ -	\$ 2,247,846
Transfers to homeowners	1,328,651	-	-	1,328,651
Noncash donations for resale at Restore	353,316	-	-	353,316
Merchandise and Restore revenues	343,986	-	-	343,986
Less: merchandise and Restore expenses	(583,829)	-	-	(583,829)
Event income	265,437	-	-	265,437
Less: event expenses	(118,828)	-	-	(118,828)
Pass-through income, net	-	38,814	-	38,814
Other revenue	23,234	-	-	23,234
Mortgage loan discount amortization	1,807,465	-	-	1,807,465
Interest income	38,461	-	-	38,461
Unrealized gain on Investment in joint venture HFHI-SA Leverage III, LLC	44,628	-	-	44,628
Endowment fund income	17,434	-	-	17,434
	<u>5,173,801</u>	<u>632,814</u>	<u>-</u>	<u>5,806,615</u>
Net assets released from restrictions	<u>486,489</u>	<u>(486,489)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>5,660,290</u>	<u>146,325</u>	<u>-</u>	<u>5,806,615</u>
<b>EXPENSES</b>				
Program services	3,331,130	-	-	3,331,130
Supporting services:				
Fundraising	126,426	-	-	126,426
Management and general	194,483	-	-	194,483
Total expenses	<u>3,652,039</u>	<u>-</u>	<u>-</u>	<u>3,652,039</u>
Change in net assets	2,008,251	146,325	-	2,154,576
Net assets - beginning of year	<u>7,581,376</u>	<u>175,000</u>	<u>100,000</u>	<u>7,856,376</u>
Net assets - end of year	<u>\$ 9,589,627</u>	<u>\$ 321,325</u>	<u>\$ 100,000</u>	<u>\$ 10,010,952</u>

Habitat for Humanity of New Castle County, Inc.  
Statement of Activities  
For the Year Ended June 30, 2010

	Unrestricted	Temporarily Restricted	Permanently Restricted	2010 Total
<b>SUPPORT AND REVENUE</b>				
Contributions	\$ 859,872	\$ 377,590	\$ -	\$ 1,237,462
Contributions in-kind	708,137	-	-	708,137
Transfers to homeowners	2,943,881	-	-	2,943,881
Noncash donations for resale at Restore	242,551	-	-	242,551
Merchandise and Restore revenues	251,069	-	-	251,069
Less: merchandise and Restore expenses	(418,971)	-	-	(418,971)
Event income	257,465	-	-	257,465
Less: event expenses	(119,380)	-	-	(119,380)
Other revenue	13,265	-	-	13,265
Mortgage loan discount amortization	2,713,080	-	-	2,713,080
Interest income	29,068	-	-	29,068
Endowment fund income	9,324	-	-	9,324
	<u>7,489,361</u>	<u>377,590</u>	<u>-</u>	<u>7,866,951</u>
Net assets released from restrictions	<u>262,590</u>	<u>(262,590)</u>	<u>-</u>	<u>-</u>
Total support and revenue	<u>7,751,951</u>	<u>115,000</u>	<u>-</u>	<u>7,866,951</u>
<b>EXPENSES</b>				
Program services	7,237,107	-	-	7,237,107
Supporting services:				
Fundraising	122,558	-	-	122,558
Management and general	199,061	-	-	199,061
Total expenses	<u>7,558,726</u>	<u>-</u>	<u>-</u>	<u>7,558,726</u>
Change in net assets	193,225	115,000	-	308,225
Net assets - beginning of year	<u>7,388,151</u>	<u>60,000</u>	<u>100,000</u>	<u>7,548,151</u>
Net assets - end of year	<u>\$ 7,581,376</u>	<u>\$ 175,000</u>	<u>\$ 100,000</u>	<u>\$ 7,856,376</u>

**Habitat for Humanity of New Castle County, Inc.**  
**Statements of Cash Flows**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Change in net assets	\$ 2,154,576	\$ 308,225
Adjustments to reconcile change in net assets to net cash used by operating activities:		
Bad debt expense - pledges receivable	36,716	5,954
Contributed materials to construction in progress	(26,275)	(45,681)
Depreciation	35,527	36,551
Amortization	8,520	3,652
Discount on pledges receivable	14,337	(14,340)
Endowment fund (income) loss	(17,434)	(9,324)
Unrealized gain on Investment in joint venture HFHI-SA Leverage III, LLC	(44,628)	-
Loss on disposal of property and equipment	7,365	-
Net mortgage discounts issued (retired)	137,592	(859,421)
Discount on mortgages sold	1,143,990	1,792,825
Mortgage loan discount amortization	(1,807,465)	(93,951)
Transfer to homeowners	(1,328,651)	(2,943,881)
Decreases (increases) in assets		
Restricted cash and cash equivalents	19,774	-
Prepaid expenses	(25,408)	-
Inventory	(15,256)	5,175
Accounts receivable	7,153	(3,256)
Pledges and grants receivable	(300,231)	405,375
Construction in progress	(1,756,082)	371,595
(Decrease) increase in liabilities		
Accounts payable and accrued expenses	15,807	71,941
Accrued interest	1,930	-
Net cash used by operating activities	<u>(1,738,143)</u>	<u>(968,561)</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Mortgage payments received	221,554	222,095
Payment received from sale of mortgages	2,627,844	2,559,225
Payments for mortgages purchased	(180,064)	-
Payments for the purchase of property and equipment	(32,705)	(4,079)
Investment in partnership	-	(2,264,791)
Deposits to endowment funds	(134,688)	-
Payments for financing fees	-	(109,552)
Net deposits to restricted cash accounts	-	(121,427)
Interest earned and retained in restricted cash	(966)	(1,506)
Redemption of certificates of deposit	60,000	-
Net cash provided by investing activities	<u>2,560,975</u>	<u>279,965</u>



**Habitat for Humanity of New Castle County, Inc.**  
**Statements of Cash Flows (Continued)**  
**For the Years Ended June 30, 2011 and 2010**

	<u>2011</u>	<u>2010</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Repayments of capital lease	(943)	(1,577)
Proceeds from notes payable	77,763	2,766,246
Repayments of notes payable	-	(770,420)
Net cash provided by financing activities	<u>76,820</u>	<u>1,994,249</u>
<b>NET INCREASE IN CASH AND CASH EQUIVALENTS</b>	899,652	1,305,653
<b>CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR</b>	<u>2,483,348</u>	<u>1,177,695</u>
<b>CASH AND CASH EQUIVALENTS, END OF YEAR</b>	<u>\$ 3,383,000</u>	<u>\$ 2,483,348</u>
<b>NONCASH INVESTING AND FINANCING ACTIVITIES</b>		
Contributed materials to construction in progress	<u>\$ 26,275</u>	<u>\$ 45,681</u>
Discount on mortgage purchased	<u>\$ 68,885</u>	<u>\$ -</u>
Mortgage receivable satisfied through foreclosure	<u>\$ 202,797</u>	<u>\$ 116,062</u>
Acquisition of fixed assets under a capital lease obligation	<u>\$ -</u>	<u>\$ 4,769</u>
<b>OTHER SUPPLEMENTAL DISCLOSURES</b>		
Interest paid	<u>\$ 24,444</u>	<u>\$ 32,525</u>

## 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

**Organization and Purpose** - Habitat for Humanity of New Castle County, Inc. (Habitat) (a nonprofit organization) (the "Organization") was incorporated in 1986. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), 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. Although Habitat International assists with information resources, training, publications, prayer support and in other ways, Habitat is primarily and directly responsible for its own operations.

In 2011, Habitat started an additional program called "A Brush With Kindness" (ABWK). ABWK is a nationwide effort to serve low-income homeowners who struggle to maintain the exterior of their homes. Groups of volunteers work alongside the homeowner to revitalize a home's exterior.

**Basis of Accounting** - The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America, which involves the application of the accrual method of accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

**Financial Statement Presentation** - Accounting principles generally accepted in the United States of America require the Organization to report information regarding its financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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** - Habitat considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

**Concentration of Credit Risk** - Habitat maintains cash and cash equivalents at various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 and the Securities Investor Protection Corporation up to \$100,000. Beginning December 31, 2010, the FDIC implemented a new temporary program that provides unlimited coverage for funds held in noninterest-bearing transaction accounts at insured banks. In the normal course of business, the Organization's balances may exceed insured limits. The Organization considers the possibility of incurring losses on these accounts remote.

**Inventories** - Inventories are valued at a lower of cost or market, with cost determined by the first-in, first-out method.

**Escrow Deposits** - Escrow deposits are maintained for funds paid to satisfy future contract obligations.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Pledges Receivable* - Unconditional pledges receivable are recognized as revenues or gains in the period received. Conditional pledges receivable are recognized when the conditions on which they depend are substantially met. Provisions for uncollectible receivables are offset against contributions when determined to be uncollectible by management. It is the opinion of management that the expense computed under this method is not materially different than what the expense would be if the allowance method were used. The discount rate used on long-term pledges receivable for the years ended June 30, 2011 and 2010 was 2.8% and 3.2%, respectively. There were \$36,716 and \$5,954 of pledges receivable written off during the years ended June 30, 2011 and 2010, respectively.

*Mortgages Receivable* - Mortgages receivable consist of non-interest-bearing mortgages which are secured by real estate and payable in monthly installments over the life of the mortgage.

*Property and Equipment* - Property and equipment purchased are capitalized at cost. Property and equipment are depreciated using the straight-line method.

*Endowment Fund* - Investments in the endowment fund are reported at their fair market values in the statements of financial position. ~~Donated securities are reported at fair market value as of the date of donation. All realized and unrealized gains and losses arising from fluctuations in market value, sales or other dispersion of assets are accounted for in their net asset classification.~~

The endowment fund is invested with the Delaware Community Foundation (DCF). The endowment fund's income is available to Habitat for its use in operations. DCF, through its duly authorized officers of the Board of Directors, reserves the right to make the final decisions regarding distributions to Habitat.

*Revenue Recognition* - Contributions received are recorded as unrestricted or temporarily restricted support depending on the existence or nature of any donor restrictions. Contributions are recognized when the donor makes an unconditional promise to give. Contributions that are restricted by the donor are reported as increases in unrestricted net assets if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in temporarily restricted net assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets.

Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, Habitat reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. Habitat reclassifies temporarily restricted new assets to unrestricted net assets at that time.

*Other Revenue* - Other income includes miscellaneous income and income from lease of a duplex to Habitat affiliates and to individuals.

*Functional Allocation of Expenses* - The costs of providing various programs and supporting services has been summarized on a functional basis in the statement of activities. Accordingly, certain costs have been allocated among the program and supporting services benefited.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Temporarily Restricted Net Assets* - The Organization reports donor-restricted support as temporarily restricted if such support is received with stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or a purpose restriction accomplished, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.

*Contributed Services* - Contributed services are not recognized as revenues unless the services received create or enhance the value of a non-financial asset; or require specialized skills which are provided by individuals possessing those skills and would typically need to be purchased if not provided by volunteers. A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, where provided by individuals possessing those skills and otherwise needing to be purchased if not provided by donation, are recognized as revenue and expense. Such amounts, which are included in the accompanying statements of financial position and statement of activities, totaled \$-0- and \$708,137 for the years ended June 30, 2011 and 2010, respectively.

*Transfers to Homeowners* - Transfers to homeowners are recorded at the gross mortgage amount plus down payment received. Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages. Utilizing a straight-line basis, this discount will be recognized as mortgage loan discount amortization income over the term of the mortgage.

*Home Construction Costs* - Costs incurred in conjunction with home construction are capitalized as construction in progress. Capitalized construction costs are expensed when ownership transfers to the homeowners. Any post-settlement costs are expensed as incurred.

*Tax-exempt status* - Habitat is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. In addition, Habitat qualifies for the charitable contribution deduction under Section 107(b)(1)(A) and has been classified as an organization other than a private foundation under Section 509(a)(2).

On January 1, 2009 the Organization adopted accounting policies relating to uncertainty in income taxes. This policy requires organizations to recognize, measure, present, and disclose uncertain tax positions that have been or are expected to be taken, including positions that the organization is exempt from income taxes or not subject to income taxes on unrelated business income. If there are changes in net assets as a result of the application of these policies, these will be accounted for as an adjustment to the opening balance of net assets. Additional disclosures about the amounts of such liabilities will be required also. As of June 30, 2011 and 2010, the Organization had no uncertain tax positions requiring disclosure. The Organization's open audit periods are the current and three preceding years.

*Fair Value Measurements* - U.S. generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurements) and the lowest priority to unobservable inputs (level 3 measurements). The three levels of the fair value hierarchy are described below:

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

*Fair Value Measurements (continued) -*

Level 1 - Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Trust has the ability to access.

Level 2 - Inputs to the valuation methodology include:

- quoted prices for similar assets or liabilities in active markets;
- quoted prices for identical or similar assets or liabilities in inactive markets;
- inputs other than quoted prices that are observable for the asset or liability;
- inputs that are derived principally from or corroborated by observable market data by correlation or by other means.

If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes to the methodologies used at June 30, 2011 and 2010.

Pooled Investments: Valued at the unit value which is based on the fair value of the underlying investments in the portfolio.  
Partnerships: Cost method

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Further more, while the Organization believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

*Subsequent Events* - In preparing these financial statements, the Plan has evaluated events and transactions for potential recognition or disclosure through September 02, 2011, the date the financial statements were available to be issued. No such adjustments or disclosures were judged to be necessary at June 30, 2011.

**Habitat for Humanity of New Castle County, Inc.**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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**2. RESTRICTED CASH AND CASH EQUIVALENTS**

At June 30, 2011 and 2010, the Organization held \$101,653 and \$121,427, respectively, in separate bank accounts as a condition of the loan agreement to pay fees related to the Citi First Capital 21, LLC loan.

At June 30, 2011 and 2010, the Organization held \$113,380 and \$112,414, respectively, in a separate money market reserve account to satisfy conditions of a mortgage sale agreement to repurchase delinquent loans.

**3. TRANSACTIONS WITH RELATED PARTIES**

Habitat annually remits a portion of its contributions (excluding in-kind contributions) to Habitat International. These funds are used to construct homes in economically-depressed areas around the world. For the years ended June 30, 2011 and 2010, Habitat contributed \$42,834 and \$42,944, respectively, to Habitat International. Such amounts are included in program services expense in the statements of activities. As of June 30, 2011 and 2010, \$25,729 and \$18,497, respectively, were owed to Habitat International.

**4. PROPERTY AND EQUIPMENT**

Property and equipment consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Land	\$ 152,523	\$ 152,523
Buildings and improvements	704,969	704,969
Auto and equipment	111,690	112,980
	<u>969,182</u>	<u>970,472</u>
Less: accumulated depreciation	<u>273,395</u>	<u>264,498</u>
Net property and equipment	<u>\$ 695,787</u>	<u>\$ 705,974</u>

Depreciation expense for the years ended June 30, 2011 and 2010 was \$35,527 and \$36,551, respectively, of which \$4,361 and \$6,799, respectively, is related to Restore fixed assets and included with Restore expenses on the statement of activities.

**5. INTANGIBLE ASSETS**

Intangible assets consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Loan origination fees	\$ 109,552	\$ 109,552
Less: accumulated amortization	<u>12,172</u>	<u>3,652</u>
Net intangible assets	<u>\$ 97,380</u>	<u>\$ 105,900</u>

Habitat for Humanity of New Castle County, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010

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5. INTANGIBLE ASSETS (CONTINUED)

Amortization expense for the years ended June 30, 2011 and 2010 was \$8,520 and \$3,652, respectively.

6. PLEDGES AND GRANTS RECEIVABLE

Unconditional promises to give consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
United Way Services	\$ 9,887	\$ 9,608
Restricted to local homes	<u>643,512</u>	<u>380,276</u>
Unconditional pledges receivable	<u>\$ 653,399</u>	<u>\$ 389,884</u>

The amount due from United Way Services consisted of the following as of June 30:

	<u>2011</u>	<u>2010</u>
Allocation for the next fiscal period:		
Donor designations	<u>\$ 9,887</u>	<u>\$ 9,608</u>

Pledges and grants receivable over time as follows:

Within 12 months	\$ 483,150
Within 13 – 24 months	15,753
Within 25 – 36 months	151,696
Within 37 – 48 months	1,200
Within 49 – 60 months	450
thereafter	<u>1,150</u>
	<u>\$ 653,399</u>

Pledges are recorded at present value as follows as of June 30:

	<u>2011</u>	<u>2010</u>
Pledges receivable	\$ 653,399	\$ 389,884
Unamortized discounts short term	(19,507)	(10,831)
Unamortized discounts long term	<u>(9,127)</u>	<u>(3,466)</u>
Total unamortized discounts	<u>(28,634)</u>	<u>(14,297)</u>
Pledges receivable, net of discounts	<u>\$ 624,765</u>	<u>\$ 375,587</u>

**Habitat for Humanity of New Castle County, Inc.**  
**Notes to Financial Statements**  
**June 30, 2011 and 2010**

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**7. ENDOWMENT FUND**

The endowment fund consists of pooled investments managed by the Delaware Community Foundation (DCF). Habitat is the primary income beneficiary and the principal is permanently restricted. DCF through its duly authorized officers of the board of directors reserves the right to make the final decision regarding distributions to Habitat. Endowment fund activity consisted of the following for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Beginning balance	\$ 86,873	\$ 77,549
Contributions	134,688	-
Endowment fund income	<u>17,434</u>	<u>9,324</u>
Ending balance	<u>\$ 238,995</u>	<u>\$ 86,873</u>

Investments in the endowment fund consist of income mutual funds and investments in hedge funds. Endowment fund income consisted of the following for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Unrealized gain	\$ 16,049	\$ 7,606
Income earned	2,838	2,842
Administrative & investment fees	<u>(1,453)</u>	<u>(1,124)</u>
Endowment fund income	<u>\$ 17,434</u>	<u>\$ 9,324</u>

**8. INVESTMENTS**

*Investment in Joint Venture* - Habitat invested, along with 10 other Habitat affiliates, in a joint venture (HFHI-SA Leverage III, LLC) with thirteen percent (13%) ownership 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, Habitat has invested \$2,264,791 and was able to secure a 15-year loan in the amount of \$2,758,746 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 loan accrues interest only for years 1 through 7 at a reduced rate of 0.8126%. Beginning in year 8 through year 15 the principal balance of the loan is reduced by an eight-year amortization at the same rate of 0.8126%.

*Investment in HFHI-SA Leverage III, LLC* - In 2010 Habitat participated in a New Markets Tax Credit (NMTC) program. The program provides funds to eligible organizations for investment in "qualified low-income community investment". Program compliance requirements included 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.

In 2010 Habitat has recorded its 13% investment in HFHI-SA Leverage III, LLC at the cost of investment plus transaction costs, expendable construction funds, escrow cash, and program cost liabilities.



Habitat for Humanity of New Castle County, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010

8. INVESTMENTS (CONTINUED)

In December, 2016 City First Capital Investment Fund 21, LLC, (the Fund), and the upstream effective owner of (City First Capital 21, LLC ) (holder of the promissory note due from Habitat) is expected to exercise its put option. Under the terms of the put option agreement HFHI-SA Leverage III, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow Habitat to extinguish its outstanding debt owed to the Fund.

9. FAIR VALUE OF FINANCIAL INSTRUMENTS

The table below presents the Organization's assets measured at fair value on a recurring basis by level within the fair value hierarchy (see Note 1):

Description	Fair Value Measurements at June 30, 2011 Using			
	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
	Investments in pooled accounts	\$ -	\$ 238,995	\$ -
	Investment in partnership	\$ -	\$ -	\$ 2,309,419

  

Description	Fair Value Measurements at June 30, 2010 Using			
	Quoted Prices in Active Markets for Identical Instruments Level 1	Significant Other Observable Inputs Level 2	Significant Unobservable Inputs Level 3	
	Investments in pooled accounts	\$ -	\$ 86,873	\$ -
	Investment in partnership	\$ -	\$ -	\$ 2,264,791

Habitat for Humanity of New Castle County, Inc.  
Notes to Financial Statements  
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10. LINE OF CREDIT

Habitat has a revolving line of credit with a local financial institution in the amount of \$300,000. The line incurs interest at the bank's prime rate less 1% annually on all outstanding balances. No amounts were outstanding on the line as of June 30, 2011 and 2010. The line of credit is due to expire on February 28, 2012.

11. NOTES PAYABLE

Habitat is obligated for the following notes payable as of June 30:

	2011		2010	
	Current	Long-term	Current	Long-term
Habitat for Humanity International, Inc. – Interest free note payable, payable in monthly installments of \$156 starting January 2012 through November 2015 with a balloon payment of \$168 due December 2015.	\$ 936	\$ 6,564	\$ -	\$ 7,500
Habitat for Humanity International, Inc. – Interest free note payable, payable in monthly installments of \$445 starting July 2013 through May 2017 with a balloon payment of \$460 due June 2017.	-	21,375	-	-
Cornerstone West Community Development Corporation - Note payable at 0%. Principal balance due in full on the sooner of the date the Organization receives a draw from the Delaware State Housing Authority for real estate securing the loan or December 31, 2011.	56,388	-	-	-
City First Capital 21, LLC - Note payable at 0.8126%. Semi-annual interest-only payments commencing on December 1, 2009 through December 1, 2016. Commencing on December 1, 2016, semi-annual payments in an amount sufficient to fully amortize the remaining principal balance over 8 years.	-	2,758,746	-	2,758,746
Total notes payable	\$ 57,324	\$ 2,786,685	\$ -	\$ 2,766,246

Habitat for Humanity of New Castle County, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010

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**11. NOTES PAYABLE (CONTINUED)**

Aggregate principal maturities of long-term debt are as follows:

Within 12 months	\$	57,324
Within 13 – 24 months		1,872
Within 25 – 36 months		7,212
Within 37 – 48 months		7,212
Within 49 – 60 months		6,288
61 months and thereafter		<u>2,764,101</u>
	\$	<u>2,844,009</u>

**12. CAPITAL LEASE**

The Organization has entered into a capital lease agreement for copier equipment. The lease began in September 2008 and requires sixty equal monthly payments of \$87.

Future minimum lease payments required under the lease for the year ended June 30, are as follows:

Within 12 months	\$	1,040
Within 13 - 24 months		1,040
Within 25 - 36 months		<u>261</u>
Total approximate minimum lease payments		2,341
Less approximate amount representing interest		<u>92</u>
Present value of minimum lease payments		2,249
Less current portion		<u>978</u>
Noncurrent portion	\$	<u>1,271</u>

The following is an analysis of leased assets included in property and equipment at June 30, 2011:

Equipment lease	\$	4,769
Less accumulated depreciation		<u>1,908</u>
Net leased assets	\$	<u>2,861</u>

**13. OPERATING LEASE**

The Organization has an operating lease agreement for the restore expiring March 2012. Rental expense under this lease was \$35,981 and \$33,456 for the years ended June 30, 2011 and 2010, respectively.

Habitat for Humanity of New Castle County, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010

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**13. OPERATING LEASE (CONTINUED)**

Future minimum rental expense under such leases for the year ended December 31, are as follows:

Within 12 months	28,406
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**14. COMMITMENTS AND CONTINGENCIES**

During the years ended June 30, 2011 and 2010, Habitat sold mortgages totaling \$3,523,669 and \$4,352,050, respectively. Habitat is required to repurchase any mortgage loan that becomes 120 days past due. Habitat is notified regularly of delinquent mortgages that are at risk of repurchase. As of June 30, 2011, there were thirteen mortgages classified as delinquent with total outstanding principal balances of \$960,057. As of June 30, 2011, two of these delinquent balances, totaling \$74,844, were in excess of 120 days past due. The Organization maintains a restricted bank account to satisfy any mortgages that are required to be repurchased.

**15. CONCENTRATION OF CREDIT RISK**

Habitat maintains cash and cash equivalents at various financial institutions. These balances are insured by the Federal Deposit Insurance Corporation up to \$250,000 and the Securities Investor Protection Corporation up to \$100,000. Beginning December 31, 2010, the FDIC implemented a new temporary program that provides unlimited coverage for funds held in noninterest-bearing transaction accounts at insured banks. In the normal course of business, the Organization's balances may exceed insured limits. The Organization considers the possibility of incurring losses on these accounts remote.

**16. NET ASSETS RELEASED FROM TEMPORARILY RESTRICTED NET ASSETS**

Net assets released from donor restrictions by incurred expenses satisfying the restricted purposes or by occurrence of other events specified by donors were as follows for the years ended June 30:

	<u>2011</u>	<u>2010</u>
Purpose restrictions accomplished:		
Construction of homes	\$ 442,630	\$ 262,590
A Brush With Kindness	43,859	-
Total releases from restrictions	<u>\$ 486,489</u>	<u>\$ 262,590</u>

Net assets were temporarily restricted for the following purposes as of June 30:

	<u>2011</u>	<u>2010</u>
Construction of homes	\$ 181,370	\$ 175,000
A Brush With Kindness	101,141	-
Weed and Seed	38,814	-
Total temporarily restricted assets	<u>\$ 321,325</u>	<u>\$ 175,000</u>

Habitat for Humanity of New Castle County, Inc.  
Notes to Financial Statements  
June 30, 2011 and 2010

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**17. HOME CONSTRUCTION COSTS**

Following is a summary of home building activity:

	<u>Number</u>	<u>Costs</u>
Homes under construction – July 1, 2009	20	\$ 2,378,710
Homes transferred during the year	(24)	(3,302,748)
Costs incurred in homes under construction	<u>13</u>	<u>3,092,896</u>
Homes under construction – June 30, 2010	<u>9</u>	<u>\$ 2,168,858</u>
Homes under construction – July 1, 2010	9	\$ 2,168,858
Homes transferred during the year	(11)	(1,995,297)
Costs incurred in homes under construction	<u>20</u>	<u>4,049,336</u>
Homes under construction – June 30, 2011	<u>18</u>	<u>\$ 4,222,897</u>

**18. RECLASSIFICATION**

Certain reclassifications have been made to the prior year financial statements in order for them to be in conformity with the current year presentation.

Habitat for Humanity of New Castle County, Inc.  
Statement of Functional Expenses  
For the Year Ended June 30, 2011

	Program Services			Supporting Services			2011 Total Expenses
	Construction	Discounts on Mortgage Originations	A Brush With Kindness	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 495,573	\$ -	\$ 40,352	\$ 107,371	\$ 94,804	\$ 202,175	\$ 738,100
Building materials and supplies	1,366,728	-	-	-	-	-	1,366,728
Administrative construction cost	50,836	-	-	-	32,607	32,607	83,443
Title to habitat international	42,834	-	-	-	-	-	42,834
Professional services	-	-	-	-	14,779	14,779	14,779
Mortgage discounts	-	1,281,582	-	-	-	-	1,281,582
Fundraising	-	-	-	16,820	-	16,820	16,820
Loan servicing fees	-	-	-	-	21,127	21,127	21,127
Depreciation	15,424	-	-	-	15,742	15,742	31,166
Amortization	-	-	-	-	8,520	8,520	8,520
Telephone	8,044	-	-	2,235	2,235	4,470	12,514
Occupancy	-	-	-	-	4,669	4,669	4,669
Training	26,250	-	-	-	-	-	26,250
Miscellaneous	-	-	3,507	-	-	-	3,507
	<u>\$ 2,005,689</u>	<u>\$ 1,281,582</u>	<u>\$ 43,859</u>	<u>\$ 126,426</u>	<u>\$ 194,483</u>	<u>\$ 320,909</u>	<u>\$ 3,652,039</u>

Habitat for Humanity of New Castle County, Inc.  
Statement of Functional Expenses  
For the Year Ended June 30, 2010

	Program Services			Supporting Services			2010 Total Expenses
	Construction	Discounts on Mortgage Originations	Total Program Services	Fundraising	Management and General	Total Supporting Services	
Salaries	\$ 457,801	-	\$ 457,801	\$ 106,896	\$ 91,788	\$ 198,684	\$ 656,485
Building materials and supplies	3,108,901	-	3,108,901	-	-	-	3,108,901
Administrative construction cost	33,398	-	33,398	-	54,534	54,534	87,932
Title to habitat international	42,944	-	42,944	-	-	-	42,944
Professional services	-	-	-	-	12,000	12,000	12,000
Mortgage discounts	-	3,552,533	3,552,533	-	-	-	3,552,533
Fundraising	-	-	-	13,683	-	13,683	13,683
Loan servicing fees	-	-	-	-	12,585	12,585	12,585
Depreciation	13,444	-	13,444	-	16,308	16,308	29,752
Amortization	-	-	-	-	3,652	3,652	3,652
Telephone	8,686	-	8,686	1,979	1,005	2,984	11,670
Occupancy	-	-	-	-	7,189	7,189	7,189
Training	19,400	-	19,400	-	-	-	19,400
	<u>\$ 3,684,574</u>	<u>\$ 3,552,533</u>	<u>\$ 7,237,107</u>	<u>\$ 122,558</u>	<u>\$ 199,061</u>	<u>\$ 321,619</u>	<u>\$ 7,558,726</u>