

HOMES WITH HOPE, INC.
COMBINED FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
DECEMBER 31, 2012 AND 2011

HOMES WITH HOPE, INC.

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Homes with Hope, Inc.

Report on the Financial Statements

We have audited the accompanying combined statements of financial position of Homes with Hope, Inc. as of December 31, 2012 and 2011, and the related combined statements of activities and changes in net assets, functional expenses, and cash flows for the years 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 combined 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 combined 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 combined 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 combined financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the combined 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 combined financial statements.

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

Opinions

In our opinion, the combined financial statements referred to above present fairly, in all material respects, the financial position of Homes with Hope, Inc. as of December 31, 2012 and 2011, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Report on Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the combined financial statements taken as a whole. The accompanying supplementary information, as listed in the table of contents, is presented for purposes of additional analysis including schedules required by the *Consolidated Audit Guide for Audits of HUD Programs* issued by the U.S. Department of Housing and Urban Development, Office of the Inspector General, and is not a required part of the combined financial statements. The accompanying supplementary information as shown in the accompanying table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the combined financial statements. Such information has been subjected to the auditing procedures applied in the audit of the combined financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the combined financial statements or to the combined financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the accompanying supplementary information as shown in the table of contents is fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued a report dated May 1, 2013, on our consideration of Homes with Hope, Inc.'s internal control over financial reporting and on 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 the internal control over financial reporting and compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Homes with Hope, Inc.'s internal control over financial reporting and compliance.

Marcum LLP

New Haven, CT
May 1, 2013

HOMES WITH HOPE, INC.

COMBINED STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

	2012	2011
Assets		
Current Assets		
Cash and cash equivalents	\$ 697,688	\$ 752,952
Accounts receivable	45,889	8,017
Grants receivable	66,145	3,000
Prepaid expenses	18,189	6,560
Total Current Assets	<u>827,911</u>	<u>770,529</u>
Assets Limited to Use		
Board designated investments	<u>330,259</u>	<u>263,534</u>
Total Assets Limited to Use	<u>330,259</u>	<u>263,534</u>
Property, Equipment and Leasehold Improvements		
Building	3,989,276	3,732,767
Furniture	15,313	15,313
Equipment	113,501	101,666
Leasehold improvements	646,371	629,516
Construction in progress	--	235,358
	<u>4,764,461</u>	<u>4,714,620</u>
Less accumulated depreciation and amortization	<u>1,186,758</u>	<u>1,040,779</u>
Total Property, Equipment and Leasehold Improvements	<u>3,577,703</u>	<u>3,673,841</u>
Other Assets		
Replacement reserve	71,189	56,919
Tenants deposits held in trust	2,301	2,301
Total Other Assets	<u>73,490</u>	<u>59,220</u>
	<u>\$ 4,809,363</u>	<u>\$ 4,767,124</u>

The accompanying notes are an integral part of these combined financial statements.

HOMES WITH HOPE, INC.

COMBINED STATEMENTS OF FINANCIAL POSITION (CONTINUED)

DECEMBER 31, 2012 AND 2011

	2012	2011
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 47,083	\$ 36,322
Accrued payroll and related withholdings	33,481	28,085
Refundable advances	36,899	41,293
Current portion of long term debt	6,483	6,118
Funds held for residents	3,016	1,716
Total Current Liabilities	126,962	113,534
Long-Term Debt	2,100,872	2,041,528
Other Liabilities	47,378	12,625
Security deposits	47,378	12,625
Total Liabilities	2,275,212	2,167,687
Net Assets		
Unrestricted	1,169,157	1,234,443
Temporarily restricted	1,259,055	1,259,055
Permanently restricted	105,939	105,939
Total Net Assets	2,534,151	2,599,437
	<u>\$ 4,809,363</u>	<u>\$ 4,767,124</u>

The accompanying notes are an integral part of these combined financial statements.

HOMES WITH HOPE, INC.

COMBINED STATEMENTS OF ACTIVITIES AND CHANGES IN NET ASSETS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Year ended December 31, 2012				Year ended December 31, 2011			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
Revenues								
Contributions and fundraising	\$ 972,109	\$ --	\$ --	\$ 972,109	\$ 990,457	\$ --	\$ --	\$ 990,457
Contributed use of facilities, goods and services	601,224	--	--	601,224	537,945	--	--	537,945
Grants	441,736	--	--	441,736	454,548	--	--	454,548
Fees	50,693	--	--	50,693	56,125	--	--	56,125
Rental income	264,663	--	--	264,663	235,643	--	--	235,643
Interest and investment income	21,497	--	--	21,497	(4,544)	--	--	(4,544)
Net assets released from restrictions	--	--	--	--	--	--	--	--
	<u>2,351,922</u>	<u>--</u>	<u>--</u>	<u>2,351,922</u>	<u>2,270,174</u>	<u>--</u>	<u>--</u>	<u>2,270,174</u>
Expenses								
Program	1,725,047	--	--	1,725,047	1,521,048	--	--	1,521,048
General and administrative	378,437	--	--	378,437	394,718	--	--	394,718
Fundraising costs	313,724	--	--	313,724	307,518	--	--	307,518
	<u>2,417,208</u>	<u>--</u>	<u>--</u>	<u>2,417,208</u>	<u>2,223,284</u>	<u>--</u>	<u>--</u>	<u>2,223,284</u>
Change in Net Assets	(65,286)	--	--	(65,286)	46,890	--	--	46,890
Net Assets - Beginning	<u>1,234,443</u>	<u>1,259,055</u>	<u>105,939</u>	<u>2,599,437</u>	<u>1,187,553</u>	<u>1,259,055</u>	<u>105,939</u>	<u>2,552,547</u>
Net Assets - Ending	<u>\$ 1,169,157</u>	<u>\$ 1,259,055</u>	<u>\$ 105,939</u>	<u>\$ 2,534,151</u>	<u>\$ 1,234,443</u>	<u>\$ 1,259,055</u>	<u>\$ 105,939</u>	<u>\$ 2,599,437</u>

The accompanying notes are an integral part of these combined financial statements.

HOMES WITH HOPE, INC.

COMBINED STATEMENTS OF FUNCTIONAL EXPENSES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	Year ended December 31, 2012				Year ended December 31, 2011			
	Program Expense	General and Administrative	Fundraising Costs	Total	Program Expense	General and Administrative	Fundraising Costs	Total
Payroll and related expenses	\$ 629,404	\$ 209,801	\$ 185,935	\$ 1,025,140	\$ 574,145	\$ 191,382	\$ 185,935	\$ 951,462
Depreciation and amortization	145,978	--	--	145,978	117,965	--	--	117,965
Fundraising expenses	--	--	117,625	117,625	--	--	109,351	109,351
Space occupancy	106,804	--	--	106,804	102,843	--	--	102,843
Interest expense	--	76,948	--	76,948	--	86,598	--	86,598
Consulting fees and contracted services	--	51,574	--	51,574	--	77,298	--	77,298
Repairs and maintenance	79,039	--	--	79,039	84,003	--	--	84,003
Office expense	43,688	14,563	215	58,466	37,154	12,385	1,649	51,188
Insurance	34,005	11,335	--	45,340	21,755	7,252	--	29,007
Shelter and other program related services	51,686	--	--	51,686	24,122	--	--	24,122
Postage and delivery	--	1,750	9,949	11,699	--	2,767	10,583	13,350
Other operating expenses	20,244	--	--	20,244	10,883	--	--	10,883
Travel	5,448	1,816	--	7,264	7,905	2,636	--	10,541
Food purchases	8,752	--	--	8,752	8,253	--	--	8,253
Telephone	4,422	1,474	--	5,896	4,119	1,373	--	5,492
Memberships and subscriptions	1,562	729	--	2,291	1,748	816	--	2,564
Bad debts	--	1,239	--	1,239	--	419	--	419
Contributed facilities	291,983	--	--	291,983	285,978	--	--	285,978
Contributed food, clothing and other	289,940	--	--	289,940	220,667	--	--	220,667
Contributed professional fees and contracted services	12,092	7,208	--	19,300	19,508	11,792	--	31,300
	<u>\$ 1,725,047</u>	<u>\$ 378,437</u>	<u>\$ 313,724</u>	<u>\$ 2,417,208</u>	<u>\$ 1,521,048</u>	<u>\$ 394,718</u>	<u>\$ 307,518</u>	<u>\$ 2,223,284</u>

The accompanying notes are an integral part of these combined financial statements.

HOMES WITH HOPE, INC.

COMBINED STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Cash Flows from Operating Activities	\$ (65,286)	\$ 46,890
Change in net assets		
Adjustments to reconcile change in net assets to net cash and cash equivalents provided by operating activities:		
Depreciation and amortization	145,978	117,965
Interest accrued on CHFA note	65,826	80,755
Net realized and unrealized (gain) loss on investments	(7,735)	10,438
Changes in assets and liabilities:		
Grants receivable	(63,145)	78,084
Accounts receivable	(37,872)	53,692
Prepaid expenses	(11,629)	6,139
Accounts payable	10,761	(36,885)
Accrued payroll and related withholdings	5,396	2,558
Refundable advances	(4,394)	9,294
Funds held for residents	1,300	(2,052)
Security deposits	34,753	65
	73,953	366,943
Net Cash Provided by Operating Activities		
Cash Flows from Investing Activities	(119,328)	(302,650)
Purchases of investments	60,338	28,678
Proceeds from sale of investments	(14,270)	(38,157)
Deposits to replacement reserve account	--	(279)
Tenant deposits held in trust	(49,840)	(23,767)
Purchases of property equipment	(123,100)	(336,175)
Net Cash Used in Investing Activities		
Cash Flows from Financing Activities	(6,117)	(25,511)
Repayment of long-term debt	(6,117)	(25,511)
Net Cash Provided by Financing Activities		
Net Change in Cash and Cash Equivalents	(55,264)	5,257
Cash and Cash Equivalents - Beginning	752,952	747,695
Cash and Cash Equivalents - Ending	\$ 697,688	\$ 752,952

The accompanying notes are an integral part of these combined financial statements.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES

NATURE OF OPERATIONS

The combined financial statements include the accounts of Homes with Hope, Inc., (HWH) and IHA, Inc, (IHA), collectively known as the “Association.” Both HWH and IHA are organized as non-profit corporations under the laws of the State of Connecticut to provide food and shelter for the homeless. IHA operates and administers an independent living facility for persons with mental disabilities and is subsidized by HUD facilities and programs.

The Association operates various facilities and programs as follows:

- The Gillespie Center and Hoskins Place are located on Jesup Road in Westport and provide food and emergency shelter to homeless men and women.
- The Bacharach Community is located on Wassell Lane in Westport and provides emergency shelter for homeless women who have children. Residents are provided with referral services to help them obtain permanent housing, employment, financial assistance, and to help them overcome substance abuse.
- The Linxweiler House is located on the Post Road in Westport and provides emergency shelter for homeless women who have children.
- Women’s Interfaith Network (WIN) provides mentoring for homeless mothers and mothers at risk of becoming homeless.
- The Saugatuck Avenue apartments (IHA) provide eight units of permanent, affordable, supportive housing for the formerly homeless mentally ill.
- The Westport Rotary Centennial House is located on 10 West End Avenue in Westport, became operational in September, 2009, and provides an additional six units of affordable, supportive housing for the formerly homeless mentally ill.
- The Community Kitchen is the Association’s original program. It provides three meals daily, 365 days a year, at no cost, to anyone who comes to the Gillespie Center at mealtime. The Food Pantry also provides one grocery bag of nonperishable food per week to any individual or family who asks.
- HWH provides case management and client support services to tenant/clients at the Fair Street Apartments in Norwalk (5 units) and the Hales Court Apartments in Westport (10 units).
- 86 Saugatuck Avenue is a property that was purchased at the end of 2011 and became operational in June 2012. It provides permanent, supportive housing for a family.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

SIGNIFICANT ACCOUNTING POLICIES

BASIS OF PRESENTATION

The combined financial statements of the Association are prepared on the accrual basis of accounting.

To ensure observance of limitations and restrictions that may be placed on the use of resources available, the accounts of the Association are maintained in the following asset categories:

Unrestricted – Unrestricted net assets represent available resources other than donor restricted contributions. Included in unrestricted net assets are grants and contracts which are earmarked for specific purposes.

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

Permanently Restricted – Permanently restricted net assets represent contributions that are limited by donor-imposed stipulations that neither expire by passage of time nor can be fulfilled or otherwise removed by actions of the Association.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles 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. These estimates include assessing the collectibility of accounts receivable and the useful lives of long-lived assets. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The carrying amount of the Association's financial instruments classified as current assets and current liabilities (cash and cash equivalents, accounts receivable, accounts payable, accrued expenses, and debt) approximates fair value. The fair values of other financial instruments are disclosed in their respective notes.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include investments in highly liquid debt instruments with original maturities of three months or less at purchase.

The Association has interest-bearing deposits in financial institutions that insure deposits up to \$250,000 per depositor through the Federal Deposit Insurance Corporation (FDIC). Deposits in excess of FDIC coverage are not insured and thereby represent a credit risk to the Association. The FDIC temporarily changed its coverage for all deposits in non-interest bearing accounts and these accounts are fully insured by the FDIC through December 31, 2012. As of December 31, 2012, the Association had no uninsured deposits.

ASSETS LIMITED AS TO USE

Assets that have limited use include assets set aside by the Board of Directors. The funds are managed by a sub-finance committee. Fund policy indicates that prior to reaching the size of \$250,000 the funds were to be invested in instruments with little or no risk. At this threshold, Fund policy indicates that income from the funds can be made available to HWH for its ongoing operations and that the committee can determine whether to seek active and professional administration of the funds. In 2011, the Board of Directors approved a formal Investment Policy/Strategy and the appointment of a Fund management firm.

INVESTMENTS AND INVESTMENT INCOME

Investments are measured at fair value in the combined statements of financial position. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investment income (including realized and unrealized gains and losses on investments, interest and dividends) is included in the combined statements of activities and changes in net assets unless restricted by donor or law.

GRANTS

The Association recognizes as support, funds from grants as costs are incurred and specified activities are performed. Receivables are recognized to the extent costs have been incurred but not reimbursed. Conversely, liabilities are recognized when grant advances exceed costs incurred (refundable advances).

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ACCOUNTS AND CONTRIBUTIONS RECEIVABLE

Receivables from third-party payors, clients and donors are stated at the amount management expects to collect from outstanding balances. The Association provides for losses on receivables using the allowance method. The allowance is based on experience, specific review of outstanding balances, and other circumstances that may affect the client or donor's ability to meet their obligations. Receivables are considered impaired if payments are not received in accordance with the pledge terms. It is the Association's policy to charge off uncollectible contributions receivable when management determines the receivable will not be collected. As of December 31, 2012 and 2011, the Association had no recorded allowances for doubtful accounts.

CONTRIBUTIONS AND DONOR RESTRICTED GIFTS

Unconditional promises to give cash and other assets are reported at fair value at the date the promise is received. Conditional promises to give and indications of intentions to give are reported at fair value only when the conditions on which they depend are substantially met and the promises become unconditional. The gifts are reported as either temporarily or permanently restricted support if they are received with donor stipulations that limit the use of the donated assets. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, temporarily restricted net assets are reclassified as unrestricted net assets and reported in the statement of operations as net assets released from restrictions. When long-lived assets are placed in service, thus satisfying purpose restrictions, the amount is included as a change in net assets, restricted and unrestricted. Donor-restricted contributions whose restrictions are met within the same year as received are reflected as unrestricted contributions in the accompanying financial statements.

PROPERTY, EQUIPMENT AND LEASEHOLD IMPROVEMENTS

Property and equipment are recorded at cost or, if donated, at the approximate fair value at the date of donation. Maintenance and repairs are charged to expense as incurred. When property and equipment are retired or otherwise disposed of the cost and accumulated depreciation are removed from the accounts and any resulting gain or loss is included in the results of operations for the respective period. Depreciation, totaling \$145,978 in 2012 and \$117,965 in 2011, is computed using the straight-line method over the estimated useful lives of the assets, which range from five to thirty nine years. Leasehold improvements are carried at cost and amortized over the shorter of their useful lives or the term of the lease.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

IMPAIRMENT OF LONG-LIVED ASSETS

The Association continually evaluates whether events and circumstances have occurred that may warrant revision of the estimated useful life of its long-lived assets or whether the remaining balance of its long-lived assets should be evaluated for possible impairment. If and when such factors, events or circumstances indicate that long-lived assets should be evaluated for possible impairment, the Association will determine the fair value of the asset by making an estimate of expected future cash flows over the remaining lives of the respective assets and compare that fair value with the carrying value of the assets in measuring their recoverability. In determining the expected future cash flows, the assets will be grouped at the lowest levels for which there are cash flows.

DONATED ITEMS

Donated furniture and equipment are reported as contributions at their estimated fair values at date of receipt. The estimated fair value of contributed food and the estimated fair rental value of the facilities used by the Association are recognized both as revenue and expense.

EXPENSE ALLOCATION

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

SUBSEQUENT EVENTS

The Association has evaluated subsequent events through May 1, 2013, which is the date these combined financial statements were available to be issued. All subsequent events requiring recognition or disclosure as of December 31, 2012, have been incorporated into these financial statements.

INCOME TAX STATUS

HWH and IHA were incorporated under the laws of the State of Connecticut and serve the public within the meaning of charitable, educational organizations as defined by Section 501(c)(3) of the Internal Revenue Code (the Code). As such HWH and IHA are exempt from state and federal income taxes pursuant to Section 509(a) of the Code.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 1 – OPERATIONS AND SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken and recognize a tax liability (or asset) if the organization has taken an uncertain position that more likely than not would not be sustained upon examination by taxing authorities. Management has analyzed the tax positions taken and has concluded that as of December 31, 2012, there are no uncertain positions taken or expected to be taken that would require recognition of a liability (or asset) or disclosure in the financial statements. HWH and IHA are subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. Management believes the Association is no longer subject to income tax examinations for years prior to 2009.

NOTE 2 – CONTRIBUTED USE OF FACILITIES, GOODS, AND SERVICES

CONTRIBUTED USE OF FACILITIES AND GOODS

The Association operates shelter and residential facilities from properties that are donated by the Town of Westport. The Gillespie Center, Hoskins Place, the Linxweiler House, and Bacharach Community operate in properties that are owned by the Town of Westport. The Gillespie Center/Hoskins Place and Linxweiler House are leased at one dollar per year and will expire in November 2019. The Bacharach Community housing on Wassell Lane is leased for one dollar per year. The lease extends through June 2013 with four options to renew for additional 5 year terms. The Association is responsible for all maintenance and insurance of the occupied facilities.

The Association receives contributions of food and clothing that are provided to residents and others in need without charge.

The fair value of the contributed facilities, food and clothing for the years ended December 31 is as follows:

	2012	2011
Contributed use of facilities	\$ 291,984	\$ 285,978
Contributed food, clothing and other	<u>289,940</u>	<u>220,667</u>
	<u>\$ 581,924</u>	<u>\$ 506,645</u>

Those amounts have been recognized in the financial statements as both revenues and expenses.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 2 – CONTRIBUTED USE OF FACILITIES, GOODS, AND SERVICES (CONTINUED)

CONTRIBUTED SERVICES

The Association receives contributions of legal and contracted services from individuals who regularly provide such services for compensation. All of the legal services and contracted services are provided as a contribution. The fair value of those services for the years ended December 31 approximate the following amounts:

	2012	2011
Contributed legal services	\$ 5,000	\$ 7,500
Contributed contract services	<u>14,300</u>	<u>23,800</u>
	<u>\$ 19,300</u>	<u>\$ 31,300</u>

Those amounts have been recognized in the financial statements as both revenues and expenses because they meet the recognition criteria as being performed by individuals who regularly perform such services for compensation.

Many people, including present and past board members, have contributed a significant amount of time to the activities of the Association without compensation. The financial statements do not reflect the value of those contributed services because those services do not meet the criteria for recognition because those services are not performed by individuals who regularly perform such services for compensation.

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS

During the year ended December 31, 2000, the Association received proceeds from a capital advance totaling \$840,000 issued by the Department of Housing and Urban Development (HUD) for the purpose of acquiring residential housing. As a condition to this advance, the Association is required to continue the use of the housing for eligible families until the maturity date of the advance, which ends June 30, 2041, or repay the entire amount of the advance plus interest at 6.25 percent.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 3 – TEMPORARILY RESTRICTED NET ASSETS (CONTINUED)

During the year ended December 31, 2004, the Association received proceeds from a grant totaling \$321,525 issued by HUD for the purpose of acquiring residential housing. During the year ended December 31, 2008, the Association received an additional amount of \$97,530 from HUD as part of the same grant. As a condition of this grant, the Association is required to continue use of the residential housing for a 20 year period ending July 2024.

NOTE 4 – PERMANENTLY RESTRICTED NET ASSETS

Permanently restricted net assets consist of contributions for an endowment. The funds are managed by a sub – finance committee and are to be commingled with the assets limited as to use. Income may be used as outlined in the Association’s Fund Policy.

UNIFORM PRUDENT MANAGEMENT OF INSTITUTIONAL FUNDS ACT

As required by accounting principles generally accepted in the United States of America (USGAAP), net assets, are classified and reported based on the existence or absence of donor-imposed restrictions.

The State of Connecticut adopted a version of the Uniform Prudent Management of Institutional Funds Act (UPMIFA) in 2007. In the absence of authoritative guidance on the application of Connecticut’s UPMIFA to donor-restricted funds, the Association interprets UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment fund, absent explicit donor stipulations to the contrary. As a result of this interpretation, the Association classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. Any remaining portion of the donor-restricted funds that is not classified in permanently restricted net assets would be classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Foundation in a manner consistent with the standard of prudence prescribed by UPMIFA. From time to time, the fair value of assets associated with individual donor-restricted funds may fall below the level that the donor or UPMIFA requires the Association to retain as a fund of perpetual duration. These deficiencies, which would be reported in unrestricted net assets, can result from unfavorable market fluctuations.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 5 – LONG-TERM DEBT

The Association has a mortgage with the Connecticut Housing Finance Authority (CHFA) for the purpose of constructing an apartment building for low income/permanent, supportive housing tenants. In December 2010, the construction phase was completed and the mortgage was converted to permanent financing with no payments due. The mortgage will be forgiven in 30 years as long as the Association maintains the apartments for low income/permanent supportive housing tenants and does not sell, assign, refinance or transfer the property. Interest will accrue at 4 percent through the life of the loan and will be paid annually from surplus cash as defined in the loan agreement. The balance at December 31, 2012 and 2011 was \$1,901,983 and \$1,836,156, respectively, including accumulated accrued interest of \$269,071 and \$203,244, respectively.

The Association has a note payable with a bank, collateralized by residential property located at 86 Saugatuck Avenue in Westport, Connecticut. The note, which has a balance of \$205,372 at December 31, 2012, bears interest at 5.24 percent per annum. Principal and interest are payable in monthly installments of \$1,436 through maturity on November 30, 2031.

Annual maturities of these obligations over each of the next five years and thereafter are as follows:

2013	\$	6,483
2014		6,836
2015		7,208
2016		7,572
2017		8,012
Thereafter		<u>2,071,244</u>
	\$	<u>2,107,355</u>

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 6 – GRANTS

The Association recognizes a grant as receivable when the expenses are incurred. A refundable advance is recorded when the cash received exceeds expense incurred. Revenue is recognized in the same period in which the actual expense is incurred.

A summary of grants for the years ended December 31, 2012 and 2011 is as follows:

Grantor	Grant Period	Grant Amount	2012		
			Grant Receivable	Refundable Advances	Grant Revenue
Department of Social Services	10/01/11 - 09/30/12	\$ 165,398	\$ --	\$ --	\$ 124,047
Department of Social Services	10/01/12 - 06/30/13	129,748	--	--	43,250
DSS - Heating Assistance	01/01/12 - 12/31/12	6,671	--	--	6,671
Department of Mental Health and Addiction Services	07/01/10 - 06/30/11	181,000	--	6,581	--
Department of Mental Health and Addiction Services	07/01/11 - 06/30/12	212,000	--	2,486	71,833
Department of Mental Health and Addiction Services	07/01/12 - 06/30/13	244,000	--	24,855	139,510
Emergency Food and Shelter National Board Program	12/01/11 - 03/31/13	15,875	15,875	2,977	12,898
Town of Weston	01/01/12 - 12/31/12	14,853	--	--	14,853
Town of Wilton	01/01/12 - 12/31/12	8,000	--	--	8,000
Town of Westport	07/01/11 - 06/30/12	12,000	--	--	9,000
Town of Westport	07/01/12 - 06/30/13	12,000	3,000	--	3,000
Other grants		12,000	47,270	--	8,674
			<u>\$ 66,145</u>	<u>\$ 36,899</u>	<u>\$ 441,736</u>

Grantor	Grant Period	Grant Amount	2011		
			Grant Receivable	Refundable Advances	Grant Revenue
Department of Social Services	10/01/10 - 09/30/11	\$ 165,398	\$ --	\$ --	\$ 124,049
Department of Social Services	10/01/11 - 09/30/12	165,397	--	1,900	41,349
Department of Mental Health and Addiction Services	07/01/08 - 06/30/09	64,000	--	31,999	--
Department of Mental Health and Addiction Services	07/01/10 - 06/30/11	181,000	--	--	96,769
Department of Mental Health and Addiction Services	07/01/11 - 06/30/12	--	--	7,394	140,639
Emergency Food and Shelter National Board Program	10/01/10 - 09/30/11	16,889	--	--	16,889
Town of Weston	01/01/11 - 12/31/11	14,853	--	--	14,853
Town of Wilton	01/01/11 - 12/31/11	8,000	--	--	8,000
Town of Westport	07/01/10 - 06/30/11	12,000	--	--	6,000
Town of Westport	07/01/11 - 06/30/12	12,000	3,000	--	6,000
			<u>\$ 3,000</u>	<u>\$ 41,293</u>	<u>\$ 454,548</u>

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 – INVESTMENTS AND FAIR VALUE MEASUREMENT

Investments are stated at fair value and consist of the following at December 31:

	2012		
	Cost	Fair Value	Excess (Deficiency) of Fair Value Over Cost
Short-term cash investments	\$ 959	\$ 959	\$ --
Corporate bonds	162,860	168,012	5,152
Equity securities	134,071	141,338	7,267
Stock Index Fund	20,159	19,950	(209)
	\$ 318,049	\$ 330,259	\$ 12,210
	2011		
	Cost	Fair Value	Excess (Deficiency) of Fair Value Over Cost
Short-term cash investments	\$ 10,925	\$ 10,925	\$ --
Corporate bonds	134,832	132,409	(2,423)
Equity securities	121,469	120,200	(1,269)
	\$ 267,226	\$ 263,534	\$ (3,692)

Investment return for the year ended December 31 is summarized as follows:

	2012	2011
Unrealized gain (loss)	\$ 15,902	\$ (3,692)
Realized gain (loss)	(8,167)	(6,746)
Interest and dividends	13,762	5,894
	\$ 21,497	\$ (4,544)

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 – INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

FAIR VALUE MEASUREMENT

The Association has established a framework for measuring fair value, based on a fair value hierarchy contained in Accounting Standards Codification (ASC) 820 that is intended to increase consistency and comparability in fair value measurements and related disclosures. This hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (level 1 measurement) and the lowest priority to unobservable inputs (level 3 measurement).

The three levels of fair value hierarchy are described as follows:

- Level 1 – Inputs to the valuation methodology based on unadjusted quoted market prices in active markets that are accessible at the measurement date.
- Level 2 – Inputs to the valuation methodology that include quoted market prices that are not considered to be active or financial instruments for which all significant inputs are observable, either directly or indirectly.
- 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. The Association's policy is to recognize significant transfers between levels at the beginning of the reporting period.

Following is a description of the valuation techniques used for investments measured at fair value. There have been no changes in the methodologies used at December 31, 2012 and 2011.

- The Association values investments in equity securities that are freely traded and listed on a national securities exchange or reported on the NASDAQ national market at their last sales price as of the last business day of the year.
- The fair value of the stock index fund is based on quoted prices in active markets, and categorized in Level 1 of the fair value hierarchy.
- The fair value of corporate bonds is estimated using recently executed transactions, market price quotations (where observable), bond spreads or other available data. When observable price quotations are not available, fair value is determined based on cash flow models with yield curves, bond swap spreads, and other available inputs. Corporate bonds are generally categorized in Level 2 of the fair value hierarchy.
- Short-term cash investments are valued at \$1 per share.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 – INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

The preceding methods described may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, although the Association believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value could result in a different fair value measurement at the reporting date.

The following table presents information about investments measured at fair value:

	December 31, 2012		
	Quoted Prices in Active Markets (Level 1)	Other Than Quoted Market Inputs (Level 2)	Total
Short-term cash investments	\$ 959	\$ --	\$ 959
Corporate bonds	--	168,012	168,012
Equity securities			
Services	6,417	--	6,417
Technology	13,145	--	13,145
Consumer goods	36,846	--	36,846
Basic materials	11,882	--	11,882
Healthcare	6,309	--	6,309
Financial	32,652	--	32,652
Utilities	34,087	--	34,087
Stock index funds	19,950	--	19,950
	<u>\$ 162,247</u>	<u>\$ 168,012</u>	<u>\$ 330,259</u>

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 7 – INVESTMENTS AND FAIR VALUE MEASUREMENT (CONTINUED)

	December 31, 2011		
	Quoted Prices in Active Markets (Level 1)	Other Than Quoted Market Inputs (Level 2)	Total
Short-term cash investments	\$ 10,925	\$ --	\$ 10,925
Corporate bonds	--	132,409	132,409
Equity securities			
Services	9,345	--	9,345
Technology	12,686	--	12,686
Consumer goods	29,570	--	29,570
Basic materials	27,728	--	27,728
Healthcare	5,902	--	5,902
Financial	10,915	--	10,915
Utilities	24,054	--	24,054
	<u>\$ 131,125</u>	<u>\$ 132,409</u>	<u>\$ 263,534</u>

RISKS AND UNCERTAINTIES

The Association's investment securities are subject to exposure to various risks such as interest rate risk, financial market risk, and credit risk. Due to the level of risk associated with investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such change could materially affect the value of investment securities reported in the Association's financial statements.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 8 – RESERVE FOR REPLACEMENT

IHA's agreement with HUD (the Regulatory Agreement) requires IHA to make deposits into a reserve fund for property replacements. The deposits must be paid into a separate federally insured bank account in the name of the IHA and no distribution from the reserve fund shall be made without the prior written approval of HUD. Restricted deposits, which total \$28,159 and \$22,411 at December 31, 2012, respectively, are held by a third-party trustee.

HWH's agreement with CHFA requires HWH to make deposits into a reserve fund for property replacements. The deposits must be paid into a separate federally insured bank account in the name of the HWH and no distribution from the reserve fund shall be made without the prior written approval of CHFA. Restricted deposits, which total \$43,030 and \$34,508 at December 31, 2012, respectively, are held by a third-party trustee.

NOTE 9 – RESIDUAL RECEIPTS RESERVE

The Regulatory Agreement requires that residual receipts, if any, realized from the operation of the mortgaged property be deposited into a residual receipts fund within sixty days after the end of each year. Residual receipts arise from any surplus cash from an annual calculation defined by HUD. The deposits must be paid into a separate federally insured bank account in the name of IHA. No distribution from such fund shall be made without the prior written approval of HUD. HUD has the authority to approve, modify or reject IHA's proposed usage of residual receipts. IHA was not required to deposit funds in 2012 or 2011 for the years ended December 31, 2011 and 2010, respectively.

NOTE 10 – PROJECT RENTAL ASSISTANCE CONTRACT (IHA, INC., HUD PROJECT NO. 017-HD015)

IHA receives rental subsidies under a Project Rental Assistance Contract (PRAC) with HUD. Under the terms of this contract, HUD's commitment to IHA, recorded as rental income in the accompanying combined statements of activities and changes in net assets, amounted to \$92,889 and \$81,084 for the years ended December 31, 2012 and 2011, respectively.

HOMES WITH HOPE, INC.

NOTES TO COMBINED FINANCIAL STATEMENTS

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

NOTE 11 – RESIDENTIAL ASSISTANCE PROGRAM

HWH receives rental subsidies under a Residential Assistance Program contract with the State of Connecticut Department of Social Services. Revenue from the contract, recorded as rental income in the accompanying combined statements of activities and changes in net assets, was \$122,965 and \$124,659 for the years ended December 31, 2012 and 2011, respectively.

HOMES WITH HOPE, INC.

SCHEDULE I – DETAILS OF COMBINED REVENUES

FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2011

	2012	2011
Individuals	\$ 733,664	\$ 707,977
Corporation and Foundations	190,522	240,720
Religious organization	47,923	41,760
Total Contributions	\$ 972,109	\$ 990,457
State of Connecticut - DSS	\$ 173,968	\$ 165,398
State of Connecticut - DMHAS	220,017	237,408
Emergency Food and Shelter Program	12,898	16,889
Town of Westport	12,000	12,000
Town of Weston	14,853	14,853
Town of Wilton	8,000	8,000
Total Grants	\$ 441,736	\$ 454,548
Facilities	\$ 291,984	\$ 285,978
Food, clothing and other	289,940	220,667
Legal services	5,000	7,500
Consulting service	14,300	23,800
Donated Facilities, Goods and Services	\$ 601,224	\$ 537,945
Gillespie Center and Hoskins Place	\$ 45,864	\$ 49,009
Linxweiler House	860	1,745
Bacharach Community	3,969	5,371
Total Fees	\$ 50,693	\$ 56,125

See Independent Auditors' Report.