

**HABITAT FOR HUMANITY OF GREATER
NEW HAVEN, INC. AND SUBSIDIARY**
Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

Independent Auditor's Report

To the Board of Directors
Habitat for Humanity of Greater New Haven, Inc.
New Haven, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Greater New Haven, Inc., (*a non-profit corporation*), which comprise the statements of financial position as of December 31, 2016 and 2015, and the related statements of activities and changes in net assets, cash flows and functional expenses 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 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 consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these statements based on our audits. We conducted our audits 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Greater New Haven, Inc., as of December 31, 2016 and 2015, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As described in Note 2 to the financial statements Habitat for Humanity of Greater New Haven, Inc., adopted the requirements of Financial Accounting Standards Board Accounting Standards Update (FASB ASU) 2015-03 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. The effect of adopting the new standard decreases total assets and liabilities by \$110,781 and \$131,895 respectively. Our opinion is not modified with respect to this matter.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated June 14, 2017, on our consideration of Habitat for Humanity of Greater New Haven, 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Habitat for Humanity of Greater New Haven, Inc.'s, internal control over financial reporting and compliance.

KIRCALDIE, RANDALL & MCNAB LLC

Kircaldie Randall, McNab LLC

North Haven, Connecticut
June 14, 2017

**Report on Internal Control over Financial Reporting and on
Compliance and Other Matters Based on an Audit of Financial
Statements Performed in Accordance
with Government Auditing Standards**

Independent Auditor's Report

To the Board of Directors
Habitat for Humanity of Greater New Haven, Inc.
New Haven, Connecticut

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Habitat for Humanity of Greater New Haven, Inc., which comprise the statement of financial position as of December 31, 2016 and 2015, and the related statements of activities, changes in net assets and cash flows for the year then ended, and the related notes to the financial statements, and have issued our report thereon dated June 14, 2017.

Internal Control over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this report

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

Kircaldie Randall & McNab LLC

North Haven, Connecticut
June 14, 2017

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Assets		
Cash	\$ 328,012	\$ 310,421
Restricted cash	51,703	70,885
Accounts receivable	280	1,262
Contributions and grants receivable	155,029	141,778
Mortgages receivable, net	1,695,249	1,471,585
Prepaid expenses	25,978	25,568
Construction in progress	144,848	326,922
Security deposits	8,992	7,527
Investment in leveraged lender	1,558,131	1,534,979
Property and equipment, net	329,031	353,109
Total Assets	<u>\$ 4,297,253</u>	<u>\$ 4,244,036</u>
Liabilities		
Accounts payable and accruals	\$ 98,318	\$ 89,040
Deposits and escrows	2,366	6,109
Deferred revenue	50,484	73,087
Mortgage notes payable	137,646	158,143
Loans payable	1,839,469	1,790,025
Total Liabilities	<u>\$ 2,128,283</u>	<u>\$ 2,116,404</u>
Net Assets		
Unrestricted	\$ 2,126,220	\$ 2,021,382
Temporarily Restricted	42,750	106,250
Total Net Assets	<u>\$ 2,168,970</u>	<u>\$ 2,127,632</u>
Total Liabilities and Net Assets	<u>\$ 4,297,253</u>	<u>\$ 4,244,036</u>

KIRCALDIE, RANDALL & MGNAB LLC

See accompanying auditor's report and notes to consolidated financial statements

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Consolidated Statement of Activities and Changes in Net Assets
For the Year Ended December 31, 2016
(with comparative summarized totals for 2015)

	2016			2015
	<u>Unrestricted</u>	<u>Temporarily Restricted</u>	<u>Total</u>	<u>Total</u>
Revenues and gains				
Contributions	\$ 707,931	\$ -	\$ 707,931	\$ 556,406
Government grants	517,234	-	517,234	318,902
Special events	61,375	-	61,375	12,989
In-kind donations	274,889	-	274,889	220,225
Transfers to homeowners	670,180	-	670,180	382,960
ReStore sales, net of cost of goods	216,716	-	216,716	219,790
Imputed interest on mortgage receivables	97,660	-	97,660	89,792
Gain/(loss) on assets	43,932	-	43,932	51,133
Investment income	37,641	-	37,641	37,641
Interest income	363	-	363	587
Other revenue	20,727	-	20,727	25,038
Satisfaction of program restrictions	63,500	(63,500)	-	-
Total Revenues and Gains	\$ 2,712,148	\$ (63,500)	\$ 2,648,648	\$ 1,915,463
Expenses				
Program services	\$ 2,398,398	\$ -	\$ 2,398,398	\$ 1,624,256
Supporting services				
Fundraising	135,578	-	135,578	118,000
General and administrative	73,334	-	73,334	90,031
Total Expenses	\$ 2,607,310	\$ -	\$ 2,607,310	\$ 1,832,287
Change in Net Assets	\$ 104,838	\$ (63,500)	\$ 41,338	\$ 83,176
Net Assets - Beginning of Year	2,021,382	106,250	2,127,632	2,044,456
Net Assets - End of Year	\$ 2,126,220	\$ 42,750	\$ 2,168,970	\$ 2,127,632

KIRCALDIE, RANDALL & MCNAB LLC

See accompanying auditor's report and notes to the consolidated financial statements

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Consolidated Statements of Cash Flows
For the Years Ended December 31, 2016 and 2015

	<u>2016</u>	<u>2015</u>
Change in Net Assets	\$ 41,338	\$ 83,176
<i>Adjustments to reconcile change in net assets to net cash provided by operating activities:</i>		
Depreciation	29,322	27,892
Operating Activities		
Mortgages recorded, net of discount	(299,349)	(171,514)
Mortgage discount amortization	(97,660)	(89,792)
Mortgage payments received, net	149,103	162,468
Decrease in accounts receivable	982	3,789
(Increase) decrease in contributions and grants receivable	(13,251)	100,273
Decrease (increase) in construction in progress	182,074	(134,369)
(Increase) decrease in prepaid expenses	(410)	2,242
Increase in security deposits	(1,465)	-
Increase (decrease) in accounts payable and accruals	9,278	(18,550)
(Decrease) increase in amounts on deposit	(3,743)	2,000
Net cash used by operating activities	<u>\$ (3,781)</u>	<u>\$ (32,385)</u>
Investing Activities		
Decrease in properties held for sale	\$ -	\$ 135,105
Proceeds from sale and assignment of mortgages	55,000	61,000
Gain on sale and assignment of mortgages	(30,758)	(33,427)
Equipment purchases, net	(5,244)	(21,633)
Net cash provided by investing activities	<u>\$ 18,998</u>	<u>\$ 141,045</u>
Financing Activities		
Increase in investment in leveraged lender	\$ (23,152)	\$ (23,152)
Increase in loans payable	49,444	28,985
Decrease in deferred revenue	(22,603)	(22,149)
Decrease in mortgage notes payable	(20,497)	(19,736)
Net cash used by financing activities	<u>\$ (16,808)</u>	<u>\$ (36,052)</u>
(Decrease) increase in cash	\$ (1,591)	\$ 72,608
Cash - Beginning of year	<u>381,306</u>	<u>308,698</u>
Total Cash - End of year	<u><u>\$ 379,715</u></u>	<u><u>\$ 381,306</u></u>
Supplemental disclosures		
Interest paid	<u>\$ 20,486</u>	<u>\$ 21,507</u>

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See accompanying auditor's report and notes to the consolidated financial statements

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Consolidated Statement of Functional Expenses
For the Year Ended December 31, 2016
(with summarized comparative totals for 2015)

	2016				2015
	Program Services	Fund Raising	General & Administrative	Total	Total
Cost of homes transferred	\$ 1,565,860	\$ -	\$ -	\$ 1,565,860	\$ 977,784
Vehicle costs	15,323	-	-	15,323	19,593
Salaries and benefits	222,493	64,227	56,422	343,142	327,286
Professional fees and labor	44,290	2,373	2,630	49,293	48,977
Insurance	9,429	711	710	10,850	11,957
Telephone	8,515	1,401	748	10,664	9,973
Postage and mailing	1,230	2,331	43	3,604	2,859
Printing and publications	4,314	2,747	-	7,061	5,562
Equipment and supplies	5,784	1,012	1,000	7,796	11,875
Occupancy	67,969	1,834	3,131	72,934	76,082
Meetings, training, travel, dues	1,296	456	287	2,039	3,351
Public relations	1,920	125	69	2,114	2,631
Cost of special events	9,581	9,307	-	18,888	-
Tithe and fees to International	28,790	-	-	28,790	26,000
In-kind expenses	18,338	270	6,020	24,628	13,715
Interest and service charges	8,213	47,725	783	56,721	58,022
Depreciation	26,772	1,059	1,491	29,322	27,892
Discount on mortgages issued	358,281	-	-	358,281	208,728
Total	\$ 2,398,398	\$ 135,578	\$ 73,334	\$ 2,607,310	\$ 1,832,287

KIRCALDIE, RANDALL & MGNAB LLC

See accompanying auditor's report and notes to the consolidated financial statements

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

1. Organization and Purpose

Habitat for Humanity of Greater New Haven, Inc. (Habitat) is a not-for-profit organization, incorporated in the State of Connecticut in 1986. Habitat is an affiliate of Habitat for Humanity International, Inc., a nondenominational Christian not-for-profit organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness, and to make decent shelter a matter of conscience and action. Although Habitat for Humanity International (HfHI) assists with informational and fiscal resources, Habitat is primarily responsible for its own operations.

Habitat builds and renovates affordable homes in the Greater New Haven, Connecticut area, through volunteer labor and with the assistance of the future low income homeowner families. Future homeowners are required to contribute four hundred hours of their own labor into the building of their house as well as the houses of others. Habitat houses are sold to low income families at below cost, and financed by Habitat with no interest over a twenty five year term. Habitat's program is funded through contributions, grants, and in-kind donations, from individuals, foundations, corporations, public agencies and religious organizations.

Habitat is exempt from federal income taxation under Section 501(a) as an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended. Habitat is generally exempt from state and local taxes. No provision for income tax is recorded in the financial statements.

2. Summary of Significant Accounting Policies

Principles of Consolidation

The accompanying consolidated financial statements include the accounts of Habitat for Humanity of Greater New Haven, Inc., and its wholly owned subsidiary, 37 Union Ave., LLC. Habitat is the sole member of 37 Union Ave., LLC which was formed in October 2003 to acquire real property and lease it back to Habitat as office space. All material transactions and balances between the entities have been eliminated in the consolidation. 37 Union Ave., LLC is considered a disregarded entity for income tax purposes.

Basis of Accounting

Habitat prepares its consolidated financial statements on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America. Under this basis, revenues are recognized when earned and expenses are recognized when the obligation is incurred.

Mortgages Receivable

Mortgages receivable consist of non-interest bearing amounts due from individuals who have purchased homes constructed by Habitat. These mortgages are secured by the real estate and payable in monthly installments over twenty five to thirty year terms. The mortgages are discounted based upon prevailing market rates for low income housing at the inception of the mortgage. The discount is amortized on a straight-line basis over the term of the mortgage.

Because mortgages receivable are secured by the real estate, and ultimately through the process of foreclosure, management believes that procedures will result in collection. Accordingly, no allowance for uncollectible accounts has been provided.

Construction in Progress

Construction in progress consists of in-kind donations and the direct costs of acquiring land and property, holding costs, and construction and rehabilitation costs. When the corresponding homes are completed and transferred to homeowners these costs are expensed.

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

Investment in Partnership

Habitat invested in the joint venture named CCML Leverage I, LLC to take advantage of New Market Tax Credit (NMTC) financing. The investment is recorded at fair market value using the cost approach. The change in market value is reported as investment income.

Property and Equipment

Equipment purchased or contributed in excess of \$500 is capitalized. Equipment is recorded at cost, if purchased and fair market value, if contributed. Depreciation is computed on a straight-line basis over the following useful lives:

Building and improvements	10 to 40 years
Vehicles, office and construction equipment	5 to 10 years
Furniture and fixtures	10 years
Leasehold improvements	8 years

Net Assets

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

Unrestricted net assets represent available resources other than donor-restricted contributions.

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

Contributions

Unrestricted and unconditional contributions are recognized when received or pledged. Contributions are reported as temporarily restricted if they are received with donor stipulations that limit the use of such assets. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the consolidated statement of activities and changes in net assets as net assets released from restrictions. Habitat's policy is to present temporarily restricted net assets received and restrictions met during the current year as unrestricted net assets. Habitat recognizes the expiration of donor restrictions on contributions of property and equipment or contributions restricted for property and equipment in the year the property and equipment is placed in service. Habitat has not received any contributions with donor imposed permanent restrictions.

Grants

Entitlement to cost or performance based reimbursement grants is conditioned on the expenditure of funds or attainment of specific performance goals in accordance with the grant restrictions and, therefore, Habitat recognizes revenue to the extent of grant expenditures or performance achieved.

Contributed Services and Materials

Donated property and materials are recorded as a contribution at fair market value when received. Habitat recognizes contributed services if they require specialized skills. Although a substantial number of volunteers have made significant contributions of their time, their services do not meet the criteria for recognition in the consolidated financial statements under the Financial Accounting Standards Board Accounting Standards Codification (FASB ASC 958). For the years ended December 31, 2016 and 2015, Habitat valued contributed services at \$64,214 and \$55,128, respectively, and contributed materials at \$210,675 and \$165,097, respectively.

Transfers to Homeowners

Transfers to homeowners are recorded at the sales price of the home at closing. Habitat executes a Declaration of Resale Restrictions and a Quit-Claim Deed with each homeowner. These documents are attached to the land records.

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

Functional Allocation of Expenses

The costs of providing programs and other activities have been summarized on a functional basis in the consolidated statement of activities and changes in net assets. Certain costs have been allocated among the programs and supporting services benefited.

Use of Estimates

Accounting principles generally accepted in the United States require management to make estimates and assumptions in preparing the consolidated financial statements. Actual results could vary from the estimates.

Deferred Financing Costs

During the year ended December 31, 2016, Habitat adopted the requirements of the Financial Accounting Standards Board Accounting Standards Update 2015-03 to present debt issuance costs as a reduction of the carrying amount of the debt rather than as an asset. The effect of adopting the new standard decreases total assets and liabilities as of December 31, 2016 and 2015 by \$110,781 and \$131,095, respectively. Habitat amortizes these costs on a straight-line basis over the term of the related debt.

Reclassifications

Certain amounts as previously reported have been reclassified in order to be consistent with the current year presentation.

3. Restricted Cash

Restricted cash consists of cash held in a separate bank account restricted to the payment of compliance, servicing and accounting costs associated with the NMTC program.

4. Contributions Receivable

As of December 31, 2016 and 2015, contributions receivable were \$155,029 and \$141,778, respectively, and were due in less than one year. No allowance for uncollectible contributions was recorded.

Habitat recognizes conditional promises to give as a receivable only to the extent the condition has been satisfied. Habitat has been awarded conditional grants for the purchase of land and property and for building or rehabilitating houses. As of December 31, 2016 and 2015, conditional grants receivable amounted to \$112,839 and \$174,293, respectively, and are not recorded in the consolidated financial statements.

5. Mortgages Receivable

Monthly mortgage installments range from \$112 to \$415. Historical mortgage discount rates range from 7.38% to 8.78%. Mortgages receivable on December 31st consisted of the following:

	<u>2016</u>	<u>2015</u>
Due in less than one year	\$ 257,871	\$ 226,787
Due in one to five years	831,990	741,906
Thereafter	2,672,264	2,339,905
	<u>\$3,762,125</u>	<u>\$3,308,598</u>
Less unamortized discount	2,066,876	1,837,013
	<u>\$1,695,249</u>	<u>\$1,471,585</u>

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

6. Investment in Partnership

On April 12, 2012, Habitat, along with four other Habitat for Humanity affiliates, invested in CCML Leverage I, LLC to take advantage of the NMTC program which provides tax credit incentives to investors who invest in low-income communities and is administered by the U.S. Treasury Department. Habitat's investment in CCML Leverage I, LLC totaled \$1,448,866, representing a 20% ownership stake. The investment was comprised of cash in the amount of \$100,000 and construction in progress of \$1,348,866. As part of the arrangement, Habitat secured a 15 year loan in the amount of \$1,880,000 from CCM Community Development XVII, LLC which received the tax credit allocation. The investment at December 31, 2016 and 2015, was \$1,558,131 and \$1,534,979, respectively and investment income for each year there ending was \$37,641.

7. Property and Equipment

Property and equipment on December 31st consisted of:

	<u>2016</u>	<u>2015</u>
Land	\$164,999	\$164,999
Building and improvements	131,982	131,982
Vehicles	110,356	106,346
Office equipment	39,735	39,735
Furniture and fixtures	3,251	2,017
Construction equipment	28,474	50,473
Leasehold improvements	32,170	32,170
	<u>\$510,967</u>	<u>\$527,722</u>
Less accumulated depreciation	181,936	174,613
	<u>\$329,031</u>	<u>\$353,109</u>

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Depreciation expense for the years ended December 31, 2016 and 2015 was \$29,322 and \$27,892, respectively.

8. Mortgage Notes and Loans Payable

Mortgage notes and loans payable on December 31st consisted of the following:

	<u>2016</u>	<u>2015</u>
Mortgage notes payable	\$ 139,427	\$ 160,185
Loans payable	1,948,469	1,919,078
Less unamortized costs	110,781	131,095
	<u>\$ 1,977,115</u>	<u>\$ 1,948,168</u>

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

	Current interest rate	Maturity date	2016	2015
<u>Mortgage notes payable</u>				
HOME loans	0.00%	October 2024	\$ 45,152	\$ 50,906
People's United Bank	6.00%	March 2022	94,275	109,279
			<u>\$ 139,427</u>	<u>\$ 160,185</u>
<u>Loans payable</u>				
HfHI-SHOP #201017, #202011, #203002	0.00%	June 2021	14,100	14,100
HfHI-SHOP #204004	0.00%	June 2022	8,277	-
HfHI-SHOP #205003	0.00%	December 2022	31,260	-
CCM Community Development XVII, LLC	0.77%	April 2028	1,880,000	1,880,000
Hitachi Capital America Corp	2.60%	May 2018	14,832	24,978
			<u>\$1,948,469</u>	<u>\$1,919,078</u>
			<u>\$2,087,896</u>	<u>\$2,079,263</u>

Annual maturities required on mortgages and loans payable as of December 31, 2016, are as follows:

2017	\$ 24,811
2018	21,972
2019	28,822
2020	28,822
2021	27,070
Thereafter	<u>1,956,399</u>
	<u>\$2,087,896</u>

HOME Mortgage Loans

On March 5, 1995, Habitat entered into a mortgage agreement with the City of New Haven under the United States Department of Housing and Urban Development's HOME Investment Partnership Program in the amount of \$143,700. Funds were used to acquire and rehabilitate residential structures for the benefit of income eligible individuals and families. Principal is to be repaid over twenty-five years, on a quarterly basis, beginning upon the transfer of each property to a homeowner. Outstanding principal amounts are secured by the collateral assignment of Habitat's mortgage receivable on each property.

People's United Bank Mortgage

On March 20, 2012, 37 Union Ave., LLC entered into a mortgage agreement with People's United Bank and satisfied its mortgage agreement with First Niagara Bank. The lease agreement between 37 Union Ave., LLC and Habitat for the property remains in force. The mortgage is secured by the property at 37 Union Street, New Haven, CT. Principal and interest payments are calculated on a 240 month repayment schedule and are due in 120 monthly installments, currently in the amount of \$767. On March 20, 2022, one payment will be due of the remaining principal and interest. As of December 31, 2016 this amount was \$51,053. It is Habitat's intention to repay the mortgage evenly over a 10 year repayment schedule. As of December 31, 2016 and 2015 the net present value of the mortgage was \$92,494 and \$107,237, respectively.

Self-Help Homeownership Opportunity Program (SHOP) Notes

In February 2015 and February and August 2016, Habitat executed promissory notes with Habitat for Humanity International in connection with a SHOP grant agreement. Funds were used to build the infrastructure of Habitat houses for the benefit of income eligible individuals and families. Principal is to be repaid over four years, on a monthly basis, beginning on July 1, 2017 and 2018 and January 1, 2019. The net present value of these notes as of December 31, 2016 and 2015 was \$39,505 and \$11,335, respectively.

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2016 and 2015

CCM Community Development XVII, LLC Loan

On April 12, 2012, Habitat secured a 15 year loan in the amount of \$1,880,000 from CCM Community Development XVII, LLC, the recipient of the New Markets Tax Credit allocation. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing to low income residents. Semi-annual payments of interest only are due in years 1 through 7 with fully amortizing semi-annual payments of principal and interest due in years 8 through 15. In connection with this arrangement, the members of CCML Leverage I, LLC have the option to buy back their affiliate's ownership interest. Exercise of this option will effectively allow Habitat to extinguish its debt owed to CCM Community Development XVII, LLC. The net present value of the loan as of December 31, 2016 and 2015 was \$1,785,132 and \$1,753,712, respectively.

Hitachi Vehicle Loan

Habitat purchased a 2014 Mitsubishi box truck on May 23, 2013, and entered into a financing agreement with Hitachi Capital America Corp in the amount of \$50,000. The loan is secured by the truck. Principal and interest payments are calculated on a 60 month repayment schedule in the amount of \$890.

Line of Credit

On March 20, 2012, Habitat entered into a line of credit agreement with People's United Bank in the amount of \$73,000. Interest on outstanding balances is calculated daily by adding 2% to the "People's United Bank Prime Rate". The line is secured by the business assets and a second mortgage on the property at 37 Union Street, New Haven, CT. As of December 31, 2016 and 2015, there was no outstanding balance.

Financing Costs

For the years ending December 31, 2016 and 2015, amortized mortgage financing costs and loan discounts of \$29,762 and \$29,532, respectively, are included in interest expense.

9. Restrictions on Net Assets

Temporarily restricted net assets as of December 31st consisted of the following:

	<u>2016</u>	<u>2015</u>
SHOP infrastructure grant	\$ 42,750	\$ 42,750
City of New Haven land agreements	-	33,500
Storm resistant construction contributions	-	30,000
	<u>\$ 42,750</u>	<u>\$ 106,250</u>

10. Gain (Loss) on Assets

For the years ending December 31, 2016 and 2015, gains were realized from the following: 1) the sale and release of mortgages of \$30,758 and \$33,427; 2) gains from the execution of SHOP zero percent promissory notes of \$12,674 and \$3,884; and 3) gains from the sale of property of \$500 and \$25,076, respectively.

For the year ending December 31, 2015, a loss of \$11,253 was realized from the sale of properties unsuitable for developing.

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11. Special Fundraising Events

During the year ended December 31, 2016, Habitat conducted the following fundraising events:

	Gross Receipts	Expenses	Net Fundraising Income
Master Builder Party	\$ 47,963	\$ 18,888	\$ 29,075
Regatta	13,412	-	13,412
	<u>\$ 61,375</u>	<u>\$ 9,610</u>	<u>\$ 42,487</u>

During the year ended December 31, 2015, Habitat conducted the following fundraising event:

	Gross Receipts	Expenses	Net Fundraising Income
Regatta	\$ 12,989	\$ -	\$ 12,989

12. Pension Plan

Habitat maintains a Simple IRA pension plan for employees. Employees can contribute up to the federal maximum and Habitat matches employee contributions up to 3% of the employee's salary. For the years ended December 31, 2016 and 2015, Habitat's expense was \$16,384 and \$13,835, respectively.

13. Operating Leases

Habitat entered into a lease commencing April 1, 2013, with Fulton Forbes, Inc. for the real property located at 286 South Colony Road, Wallingford, CT for the purpose of operating a ReStore. The lease term is for seven years with two three year options to renew and increases by 3% annually each April 1st. Rent expense for the years ended December 31, 2016 and 2015, was \$37,968 and \$36,861, respectively.

As of December 31, 2016 future minimum payments under this lease are as follows:

2017	\$ 39,106
2018	40,280
2019	41,488
2020	10,448

14. Transactions with Habitat for Humanity International

Habitat annually tithes a portion of its contributions to Habitat for Humanity International (HfHI) which uses the funds exclusively to construct homes in economically depressed areas around the world. Beginning January 1, 2014 HfHI phased in an annual U.S. Stewardship and Organizational Sustainability Initiative (US-SOSI) fee based on affiliates' geographic service area population. The fee is used to offset a portion of the costs associated with HfHI's efforts that benefit all affiliates such as brand protection and promotion, regulatory advocacy and gifts in-kind solicitation.

Total contributions to HfHI for the years ended December 31, 2016 and 2015, were \$28,790 and \$26,000, respectively and \$23,790 and \$20,110 was included in accounts payable and accrued expenses, respectively.

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15. Expenditures of Federal Awards

For the year ended December 31, 2016, Habitat expended the following United States Department of Housing and Urban Development awards:

Pass Through Agency/ Program Title	Catalogue of Federal Domestic Assistance Number	Pass Through Identifier	
<u>City of New Haven:</u>			
Community Development Block Grant	14.218	CDBG 40/41	\$ 63,455
HOME Investment Partnership Program	14.239	HOME	360,000
Total Passed Through the City of New Haven			\$423,455
<u>Habitat for Humanity International:</u>			
Self-Help Homeownership Opportunity Program	14.247	SHOP 2013	93,780
Total Federal Awards			\$517,235

As of December 31, 2016, the principal balance of loans payable under federal awards was \$45,152 for HOME loans and \$53,637 for SHOP loans.

16. Contingent Liabilities

Habitat assigns mortgages to the Connecticut Housing Financing Authority (CHFA) and guarantees repayment of these mortgages to CHFA if the homeowners default. The mortgages are collateralized by the related real estate. For the years ending December 31, 2016 and 2015 Habitat assigned mortgages of \$55,000 and \$61,000, respectively and recognized gains of the unamortized discount on those mortgages of \$30,758 and \$33,427, respectively.

As of December 31, 2016 and 2015, Habitat was secondarily liable to CHFA for \$541,976 and \$541,391, respectively, equal to the total scheduled payments on the mortgages through 2036. Habitat's management believes that the fair value of the collateralized real estate exceeds the amount of the debt obligation and doesn't anticipate significant losses. No liability for potential losses has been recorded.

17. Subsequent Events

There were no subsequent events as evaluated through June 14, 2017, the date the financial statements were available to be issued.