

**HABITAT FOR HUMANITY OF GREATER
NEW HAVEN, INC. AND SUBSIDIARY**
Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

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*) and subsidiary, which comprise the statements of financial position as of December 31, 2019, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of 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 financial 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., and Subsidiary as of December 31, 2019, 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.

Report on Summarized Comparative Information

We have previously audited the Habitat for Humanity of Greater New Haven, Inc., and Subsidiary's 2018 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated June 20, 2019. In our opinion, the summarized comparative information presented herein as of and for the year ended December 31, 2018, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated August 30, 2020, 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

North Haven, Connecticut
August 30, 2020

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

To the Board of Directors
Habitat for Humanity of 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, 2019, 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 August 30, 2020.

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
August 30, 2020

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Consolidated Statements of Financial Position
December 31, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Assets		
Cash	\$ 855,871	\$ 518,297
Restricted cash	-	11,234
Accounts receivable	511	339
Contributions and grants receivable	321,603	142,257
Mortgages receivable, net	1,966,980	1,809,489
Prepaid expenses	21,752	18,819
Construction in progress	241,281	144,441
Security deposits	6,116	9,024
Investment in leveraged lender	-	1,604,436
Property and equipment, net	279,278	291,592
Total Assets	<u>\$ 3,693,392</u>	<u>\$ 4,549,928</u>
Liabilities		
Accounts payable and accruals	\$ 136,707	\$ 100,166
Deposits and escrows	36,307	2,727
Deferred revenue	-	6,057
Mortgage notes payable	72,584	95,202
Loans payable	68,125	1,903,348
Total Liabilities	<u>\$ 313,723</u>	<u>\$ 2,107,500</u>
Net Assets		
Without donor restrictions	\$ 3,324,369	\$ 2,397,628
With donor restrictions	55,300	44,800
Total Net Assets	<u>\$ 3,379,669</u>	<u>\$ 2,442,428</u>
Total Liabilities and Net Assets	<u>\$ 3,693,392</u>	<u>\$ 4,549,928</u>

KIRCALDIE, RANDALL & McNAB 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 Change in Net Assets
For the Year Ended December 31, 2019
(with comparative summarized totals for 2018)

	2019			2018
	Without Donor Restrictions	With Donor Restrictions	Total	Total
Revenues and Gains				
Contributions	\$ 947,680		\$ 947,680	\$ 651,870
Government grants	513,397	55,300	568,697	185,130
Special events	22,580		22,580	17,798
In-kind donations	288,035	-	288,035	154,465
Transfers to homeowners	578,047		578,047	412,220
ReStore sales, net of cost of goods	416,449		416,449	309,163
Mortgage discount amortization	118,189		118,189	113,420
Gain on assets	20,068		20,068	111,640
Investment income	283,976		283,976	37,641
Interest income	1,349		1,349	791
Other revenue	20,903		20,903	25,029
Satisfaction of program restrictions	44,800	(44,800)	-	-
Total Revenues and Gains	\$ 3,255,473	\$ 10,500	\$ 3,265,973	\$ 2,019,167
Expenses				
Program services	\$ 2,088,274	\$ -	\$ 2,088,274	\$ 1,670,250
Supporting services				
General and administrative	117,242	-	117,242	100,571
Fundraising	123,216	-	123,216	116,641
Total Expenses	\$ 2,328,732	\$ -	\$ 2,328,732	\$ 1,887,462
Change in Net Assets	\$ 926,741	\$ 10,500	\$ 937,241	\$ 131,705
Net Assets - Beginning of Year	2,397,628	44,800	2,442,428	2,310,723
Net Assets - End of Year	\$ 3,324,369	\$ 55,300	\$ 3,379,669	\$ 2,442,428

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 Statement of Functional Expenses
For the Year Ended December 31, 2019
(with summarized comparative totals for 2018)

	2019			<u>Total</u>	2018
	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>		<u>Total</u>
Cost of homes transferred	\$ 1,260,829	\$ -	\$ -	\$ 1,260,829	\$ 984,792
Vehicle costs	25,688	-	-	25,688	23,575
Salaries and benefits	218,178	99,219	60,504	377,901	310,740
Professional fees and labor	78,717	3,993	1,562	84,272	68,191
Insurance	3,982	235	225	4,442	12,542
Telephone	12,007	1,413	1,905	15,325	15,549
Postage and mailing	702	40	1,139	1,881	2,430
Printing and publications	4,024	197	4,212	8,433	7,345
Equipment and supplies	8,775	1,348	1,346	11,469	9,672
Occupancy	78,884	4,536	2,221	85,641	82,245
Meetings, training, travel, dues	2,421	778	889	4,088	1,503
Public relations	4,116	283	283	4,682	2,069
Cost of special events	-	-	669	669	-
Tithe and fees to International	36,800	-	-	36,800	30,100
In-kind expenses	15,307	3,730	3	19,040	30,660
Interest and service charges	6,547	336	47,383	54,266	61,057
Depreciation	18,825	1,134	875	20,834	20,994
Discount on mortgages issued	312,472	-	-	312,472	223,998
Total expenses by function	\$ 2,088,274	\$ 117,242	\$ 123,216	\$ 2,328,732	\$ 1,887,462

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, 2019 and 2018

	<u>2019</u>	<u>2018</u>
Change in Net Assets	\$ 937,241	\$ 131,705
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	20,834	20,994
Gain on homeowner debt extinguishment	-	(38,995)
Changes in operating assets and liabilities		
Mortgages recorded, net of discount	(547,154)	(178,497)
Mortgage discount amortization	(118,188)	(113,420)
Mortgage payments received, net	471,635	251,963
Decrease (increase) in accounts receivable	(172)	107
Decrease in contributions and grants receivable	(179,346)	3,832
Decrease (increase) in construction in progress	(96,840)	186,785
Decrease (increase) in prepaid expenses	(2,933)	8,203
Increase in security deposits	2,908	(32)
(Decrease) increase in accounts payable and accruals	36,541	(80,531)
(Decrease) increase in amounts on deposit	33,580	(7,208)
Net cash from (used) by operating activities	\$ 558,106	\$ 184,906
Investing Activities		
Proceeds from sale and assignment of mortgages	\$ 54,128	\$ 105,000
Gain on sale and assignment of mortgages	(17,912)	(57,169)
Equipment purchases, net	(8,520)	(5,949)
Net cash provided (used) by investing activities	\$ 27,696	\$ 41,882
Financing Activities		
Increase in investment in leveraged lender	\$ 1,604,436	\$ (23,153)
Increase in loans payable	(1,835,223)	32,932
Decrease in deferred revenue	(6,057)	(22,393)
Decrease in mortgage notes payable	(22,618)	(21,611)
Net cash used by financing activities	\$ (259,462)	\$ (34,225)
Increase (decrease) in cash	\$ 326,340	\$ 192,563
Cash - Beginning of year	529,531	336,968
Total Cash - End of year	\$ 855,871	\$ 529,531
Supplemental disclosure of cash paid for		
Interest	\$ 9,343	\$ 18,873
Unrelated business income taxes	\$ 300	\$ 300

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

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., (HfHI) 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 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 twenty five years. Habitat's program is funded through contributions, grants, and in-kind donations, from individuals, foundations, corporations, public agencies and religious organizations.

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.

Comparative Financial Information

The accompanying consolidated financial statements include certain prior-year summarized comparative information in total, but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America. Accordingly, such information should be read in conjunction with the audited consolidated financial statements for the year ended December 31, 2018, from which the summarized information was derived.

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 in FASB ASC Topic 958. 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 income eligible families who have purchased homes built or renovated by Habitat. The 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 the applicable federal rates issued by the IRS for the 70% present value low income housing credit at the inception of the mortgage. The discount is amortized on a straight-line basis over the term of the mortgage.

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

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.

Investment in Partnership

Habitat invested in the joint venture CCML Leverage I, LLC to take advantage of New Market Tax Credit 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	3 to 10 years
Furniture and fixtures	10 years
Leasehold improvements	7 to 8 years

Minor additions and renewals are expenses in the year incurred. Major additions and renewals are capitalized. There was \$20,834 and \$20,994 of depreciation for the years ended December 31, 2019 and 2018, respectively.

Net Assets

Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

Net Assets Without Donor Restrictions – Net assets available for use in general operations and not subject to donor or grantor restrictions.

Net Assets With-Donor Restrictions – Net assets subject to donor or grantor restrictions. When a restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Habitat reports contributions restricted by donors as increases in net assets without donor restrictions if the restrictions are met in the reporting period in which the revenue is recognized.

Contributions

Habitat recognizes unrestricted and unconditional contributions when received or pledged. Conditional promises to give; those with a measurable performance and a right of return, are not recognized until the conditions on which they depend have been substantially met. Contracts and grants from the City of New Haven are conditioned upon certain performance requirements and the incurrence of qualifying expenses. Consequently, as of December 31, 2019 and 2018, conditional grants receivable of \$43,510 and \$150,729, respectively, have not been recognized in the accompanying consolidated financial statements.

Contributed Services and Materials

Donated property and materials are recorded as contributions 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 in accordance with accounting principles generally accepted in the United States of America. For the years ended December 31, 2019 and 2018, Habitat valued contributed services at \$60,709 and \$57,150, respectively, and contributed materials at \$227,326 and \$97,315, 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.

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. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Expenses that are identified with a specific program or support service are charged directly to the appropriate function. Other shared costs have been allocated among the programs and supporting services benefitted based on management's estimate of the relative effort expended for the related function.

Income Taxes

Habitat is recognized by the IRS as exempt from federal income taxes under IRC Section 501(a) as an organization described in IRC Section 501(c)(3), that qualifies for the charitable contribution deduction under IRC Sections 170(b)(1)(A)(vi) and (viii). Habitat is required to file a Return of Organization Exempt from Income Tax (Form 990) annually with the IRS. Habitat is subject to income tax on net income that is derived from business activities that are unrelated to its exempt purpose and files an Exempt Organization Business Income Tax Return (Form 990-T) with the IRS. No provision for unrelated business income tax is recorded in the financial statements. 37 Union Ave., LLC is a single member Limited Liability Company and is considered a disregarded entity for income tax purposes.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires Habitat's management to make estimates and assumptions that affect the reported amounts of 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.

Deposit Concentration Risk

Habitat manages deposit concentration risk by placing cash with financial institutions believed to be creditworthy. At times, amounts on deposit may exceed insured limits. No losses have been experienced to date in any of these accounts.

Reclassifications

Certain reclassifications of amounts previously reported have been made to the accompanying consolidated financial statements to maintain consistency between periods presented. The reclassifications had no impact on previously reported net assets.

Cash and Cash Equivalents

For purposes of financial statement presentation, the Organization considers all highly liquid investments with a maturity of six months or less to be cash equivalents.

Recent Accounting Pronouncements:

In February 2016, the Financial Accounting and Standards Board (FASB) amended the Leases topic of the Accounting Standards Codification to revise certain aspects of recognition, measurement, presentation, and disclosure of leasing transactions. The amendments will be effective for fiscal years beginning after December 15, 2020, and interim periods within fiscal years beginning after December 15, 2021. The Organization is currently evaluating the effect that implementation of the new standard will have on its financial position, results of operations, and cash flows.

On June 21, 2018, the FASB issued ASU 2018-08, Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made, which applies to all entities that receive or make contributions. The criteria for evaluating whether contributions are unconditional (and thus recognized immediately in income) or conditional (for which income recognition is deferred) have been clarified. The focus is whether a gift or grant agreement both (1) specifies a "barrier or hurdle" that the recipient must overcome to be entitled to the resources, and (2) releases the donor from its obligation to transfer resources (or if assets are advanced, a right to demand their return) if the barrier or hurdle is not achieved. An agreement that contains both is a conditional contribution. An agreement that omits one or both is unconditional. No new disclosures are required. For grants/contributions made, donors will use the same criteria as recipients (i.e., a barrier or hurdle coupled with a right of return/release) to determine whether gifts or grants are conditional or unconditional.

For federal and other government grants, the ASU clarifies the definition of an exchange transaction. As a result, not-for-profit entities will account for most federal grants as donor-restricted conditional contributions, rather than as exchange transactions (the prevalent practice today). An accommodation ("simultaneous release" option) is provided which, if elected, would allow grants received and used within the same period to be reported in net assets without donor restrictions, consistent with where the grant revenue is reported today.

For transactions in which a non-public entity serves as a resource recipient, the entity should apply the amendments in this ASU on contributions received to annual periods beginning after December 15, 2018. For transactions in which a non-public entity serves as a resource provider, the entity should apply the amendments in this ASU on contributions made to annual periods beginning after December 15, 2019. Early adoption of the amendments is permitted. The organization is currently evaluating the effect that implementation of the new

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

standard will have on its financial position, results of operations, and cash flows.

3. Liquidity and Availability

Financial assets available for general expenditure, without restrictions limiting their use, within one year of the date of the consolidated statements of financial position, are comprised of the following:

	<u>2019</u>	<u>2018</u>
Cash	\$ 855,871	\$ 518,297
Accounts receivable	511	339
Contributions and grants receivable	321,603	142,257
Mortgages receivable, current	<u>389,662</u>	<u>266,676</u>
Total	\$ 1,567,647	\$ 927,569
Less, restricted net assets	<u>55,300</u>	<u>44,800</u>
Total available	<u>\$ 1,512,347</u>	<u>\$ 882,769</u>

In addition to these assets, Habitat operates with a balanced budget and anticipates raising contributions and collecting sales revenue from its ReStore sufficient to cover expenditures not otherwise covered. Habitat also has a line of credit available to meet short-term cash flow needs (note 9).

4. 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.

5. Contributions Receivable

As of December 31, 2019 and 2018, contributions receivable were due in less than one year. No allowance for uncollectible contributions was recorded.

6. Mortgages Receivable

Monthly mortgage installments range from \$180 to \$415. Historical mortgage discount rates range from 7.35% to 8.78%. Mortgages receivable on December 31st consisted of the following:

	<u>2019</u>	<u>2018</u>
Due in less than one year	\$ 389,662	\$ 266,676
Due in one to five years	936,815	871,564
Thereafter	<u>2,994,475</u>	<u>2,850,923</u>
	\$4,320,952	\$3,989,163
Less unamortized discount	<u>2,353,972</u>	<u>2,179,674</u>
	<u>\$1,966,980</u>	<u>\$1,809,489</u>

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

7. 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. For each year ended December 31, 2019 and 2018, investment income was \$15,684 and \$37,641, respectively. Habitat in the 2019 year ended its program with CCML Leverage I, LLC., which resulted in recognizing income of \$268,292 in the 2019 year.

8. Property and Equipment

Property and equipment as of December 31st consisted of:

	<u>2018</u>	<u>2017</u>
Land	\$164,999	\$164,999
Building and improvements	132,892	131,982
Vehicles	110,356	110,356
Office equipment	39,740	35,200
Furniture and fixtures	3,251	3,251
Construction equipment	35,334	32,264
Leasehold improvements	32,882	32,882
	<u>\$519,454</u>	<u>\$510,934</u>
Less accumulated depreciation	<u>240,176</u>	<u>219,342</u>
	<u>\$279,278</u>	<u>\$291,592</u>

KIRCALDIE, RANDALL & McNAB LLC

9. Mortgage Notes and Loans Payable

Mortgage notes and loans payable as of December 31st consisted of:

	<u>2019</u>	<u>2018</u>
Mortgage notes payable	\$ 73,583	\$ 96,462
Loans payable	77,055	1,944,775
Less unamortized costs	<u>9,929</u>	<u>42,687</u>
	<u>\$ 140,709</u>	<u>\$ 1,998,550</u>

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

	Current interest rate	Maturity date	2019	2018
<u>Mortgage notes payable</u>				
HOME loans	0.00%	Oct. 2024	\$ 27,892	\$ 33,645
People's United Bank	6.00%	March 2022	45,691	62,817
			<u>\$ 73,583</u>	<u>\$ 96,462</u>
<u>Loans payable</u>				
HfHI-SHOP #201017, #202011, #203002	0.00%	June 2021	5,340	8,844
HfHI-SHOP #204004	0.00%	June 2022	4,149	6,213
HfHI-SHOP #205003	0.00%	Dec. 2022	23,448	31,260
HfHI-SHOP #211025	0.00%	June 2022	4,278	6,414
HfHI-SHOP #221044	0.00%	July 2024	17,340	12,044
HfHI-SHOP #232004	0.00%	Dec. 2025	3,750	0
HfHI-SHOP #231037	0.00%	Dec. 2025	3,750	0
HfHI-SHOP #233007	0.00%	Dec. 2025	15,000	0
CCM Community Development XVII, llc	0.77%	April 2028	0	1,880,000
			<u>\$ 77,055</u>	<u>\$1,944,775</u>
			<u>\$ 150,638</u>	<u>\$2,041,237</u>

Annual maturities required on mortgages and loans payable as of December 31, 2019, are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 35,516
2021	33,764
2022	53,931
2023	7,783
2024	2,030
Thereafter	<u>17,614</u>
Total	<u>\$ 150,638</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 the 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, 2019 this amount was \$31,684. It is Habitat's intention to repay the mortgage evenly over the 120 month repayment schedule. As of December 31, 2019 and 2018 the net present value of the mortgage was \$44,692 and \$61,558, respectively.

Self-Help Homeownership Opportunity Program (SHOP) Notes

In years 2015, 2016, 2017, 2018 and 2019 Habitat executed promissory notes with Habitat for Humanity International in connection with SHOP grant agreements. Funds were used to build the infrastructure of Habitat homes for the benefit of income eligible individuals and families. Principal is to be repaid over four years, on a monthly basis. The net present value of these notes as of December 31, 2019 and 2018 was \$68,125 and \$55,377, respectively.

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., which is completed as of the 2019 year end. The net present value of the loan as of December 31, 2019 and 2018 was \$0 and \$1,847,971, respectively.

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, Connecticut. As of December 31, 2019 and 2018, there was no outstanding balance.

Financing Costs

Debt issuance costs are amortized on a straight-line basis over the term of the related debt. For the years ended December 31, 2019 and 2018, amortized mortgage financing costs and loan discounts were \$32,758 and \$34,613, respectively, and are included in interest expense.

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

10. Net Assets with Donor Restrictions

As of December 31st net assets with donor restrictions consisted of:

	<u>2019</u>	<u>2018</u>
City of New Haven land agreement	<u>\$55,300</u>	<u>\$44,800</u>

Donor restrictions on these net assets are temporary in nature and will be met by the passage of time or other specified events.

11. Gain on Assets

For the years ended December 31, 2019 and 2018, gains were realized from the following: 1) the sale and release of mortgages of \$42,807 and \$57,169; 2) the execution of SHOP zero percent promissory notes of \$2,156 and \$2,506; and 3) the sale of property of \$0 and \$51,965, respectively.

12. Special Fundraising Events

During the years ended December 31, 2019 and 2018, Habitat conducted the following fundraising events:

<u>Event</u>	<u>Gross Receipts</u>	<u>Expenses</u>	<u>Net Fundraising Income</u>
2019 Regatta	\$ 18,651	\$ 16	\$ 18,635
2019 Chili Bowl	<u>3,928</u>	<u>653</u>	<u>3,275</u>
Total 2019	<u>\$ 22,579</u>	<u>\$ 669</u>	<u>\$ 21,910</u>
2018 Regatta	<u>\$ 17,798</u>	<u>\$ 0</u>	<u>\$ 17,798</u>

13. 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, 2019 and 2018, Habitat's expense was \$14,059 and \$12,402, respectively.

14. 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. In April 2020 the first of the two renewal options was exercised extending the lease into the 2023 year. Rent expense for the years ended December 31, 2019 and 2018, was \$41,448 and \$40,280, respectively.

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

As of December 31, 2019 future minimum payments under this lease are as follows:

<u>Year</u>	<u>Amount</u>
2020	\$ 42,733
2021	44,014
2022	45,334
2023	11,417

15. Transactions with Habitat for Humanity International

Habitat annually tithes a portion of its contributions to HfHI which uses the funds to construct homes in economically depressed areas around the world. Habitat also pays an annual U.S. Stewardship and Organizational Sustainability Initiative fee based on its geographic service area population which HfHI uses to offset costs associated with their efforts that benefit all affiliates such as brand protection and promotion, regulatory advocacy and gifts in-kind solicitation.

For the years ended December 31, 2019 and 2018, the contributions to HfHI included in accounts payable and accrued expenses were of \$40,359 and \$33,575, respectively.

16. Expenditures of Federal Awards

For the year ended December 31, 2019, Habitat expended the following United States Department of Housing and Urban Development awards:

<u>Pass Through Agency/ Program Title</u>	<u>Catalogue of Federal Domestic Assistance Number</u>	<u>Pass Through Identifier</u>	
<u>City of New Haven:</u>			
Community Development Block Grant	14.218	CDBG 41/42	\$130,309
HOME Investment Partnership Program	14.239	HOME	355,000
Self-Help Home ownership Program	14.247	SHOP	83,388
Total			<u>\$568,697</u>

As of December 31, 2019, the principal balance of loans payable under federal awards was \$27,891 for HOME loans and \$77,055 for SHOP loans. As of December 31, 2018, the principal balance of loans payable under federal awards was \$33,645 for HOME loans and \$64,775 for SHOP loans

17. Contingent Liabilities

Habitat assigns mortgages to the Connecticut Housing Financing Authority (CHFA) and guarantees repayment of these mortgages if the homeowners default. The mortgages are collateralized by the related real estate. For the year ended December 31, 2019, Habitat assigned \$54,128 of a mortgages and recognized gains of \$17,912 of the unamortized discount on that mortgages. For the year ended December 31, 2018, Habitat assigned \$105,000 of two mortgages and recognized gains of \$57,169 of the unamortized discount on those mortgages.

Habitat for Humanity of Greater New Haven, Inc. and Subsidiary
Notes to Consolidated Financial Statements
For the Years Ended December 31, 2019 and 2018

As of December 31, 2019 and 2018, Habitat was secondarily liable to CHFA for \$542,092 and \$536,897, respectively, equal to the total scheduled payments on the assigned mortgages through 2035. Habitat's management believes that the fair value of the collateralized real estate exceeds the amount of the debt obligation. No liability for potential losses has been recorded.

18 Uninsured Cash Balances

Habitat for Humanity of Greater New Haven, Inc., maintains their cash in bank deposits at (4) four high credit quality financial institutions. The balance at times exceeds the federally insured limits. At December 31, 2019, the cash balance did exceed the insured limit of \$250,000, by \$291,153.

19. Subsequent Events

There were no subsequent events as evaluated by management through August 30, 2020, the date the financial statements were available to be issued.

COVID 19 PANDEMIC

In December 2019, an outbreak of a novel strain of coronavirus (COVID19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID19 as a pandemic. In addition, multiple jurisdictions in the U.S. have declared a state of emergency. It is anticipated that these impacts will continue for some time. The impact to the Organization's operations is described below. Future potential impacts may include disruptions or restrictions on the Organization. The future effects of these issues are unknown at this time.

PPP Loan

On April 28, 2020 Habitat for Humanity of Greater New Haven, Inc., received a loan of \$115,700 through the government Paycheck Protection Program. Based on the current SBA guidelines more than half of this loan will be forgiven based on payroll and allowable operating expenses incurred in the covered period which is the earlier of either 24 weeks after funding or December 31, 2020. On December 31, 2020 the deferral period ends and the remaining loan amount not forgiven will either be returned to Peoples United Bank with accrued interest of 1% for the period or converted to a fully amortizing loan to be paid back in equal payments at an interest rate of 1% over 24 months.