HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

INDEPENDENT AUDITORS' REPORT
FINANCIAL STATEMENTS

DECEMBER 31, 2018 AND 2017

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HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

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DECEMBER 31, 2018 AND 2017

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors of
Habitat for Humanity of Coastal Fairfield County, Inc.

We have audited the accompanying financial statements of Habitat for Humanity of Coastal Fairfield County, Inc. (a nonprofit organization), which comprise the statements of financial position as of December 31, 2018 and 2017, and the related statements of activities, 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 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 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 financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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 Coastal Fairfield County, Inc. as of December 31, 2018 and 2017, 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.

Whittlesey PC

Hartford, Connecticut
April 15, 2019

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2018 AND 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 516,582	$ 224,573
Restricted cash	525,976	551,717
Grant and other receivables	587,004	1,045,084
Mortgage notes receivable, current portion	653,375	632,235
Units for resale	304,902	195,366
Construction in progress	2,032,260	1,505,909
Other assets	22,730	19,030
Total current assets	4,642,829	4,173,914
Noncurrent assets:		
Property and equipment, net	126,351	88,351
Deferred assets, net - NMTC	108,615	148,711
Investments in partnerships	2,815,952	2,817,045
Mortgage notes receivable, net of current portion and discount of $6,174,342 and $6,123,456, respectively	5,435,127	5,370,513
Total noncurrent assets	8,486,045	8,424,620
Total assets	$ 13,128,874	$ 12,598,534
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	$ 266,411	$ 255,634
Deferred revenue - NMTC	5,602	28,010
Notes payable, current portion	155,772	141,429
Total current liabilities	427,785	425,073
Noncurrent liabilities:		
Notes payable, net of current portion and discount of $362,450 and $400,027, respectively	1,679,153	1,777,955
Long-term debt - other	3,554,570	3,554,570
Total noncurrent liabilities	5,233,723	5,332,525
Total liabilities	5,661,508	5,757,598
Net assets:		
Without donor restrictions	5,761,230	5,912,610
With donor restrictions	1,706,136	928,326
Total net assets	7,467,366	6,840,936
Total liabilities and net assets	$ 13,128,874	$ 12,598,534

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Contributions	$ 803,150	$ 897,319	$ 1,700,469
Bequests	25,625	-	25,625
Grants	103,565	-	103,565
Special events	404,499	-	404,499
Sales of completed houses	978,000	-	978,000
ReStore income	1,616,528	-	1,616,528
Other income	199,938	-	199,938
Mortgage discount amortization	542,966	-	542,966
Interest income	7,233	-	7,233
Net assets released from restrictions	119,509	(119,509)	-
Total revenue and other support	4,801,013	777,810	5,578,823
EXPENSES			
Program expenses			
Community relations	40,596	-	40,596
Family services	333,311	-	333,311
Volunteer services	152,764	-	152,764
ReStore project	1,212,288	-	1,212,288
Home building, inclusive of $593,852 of discount amortization on mortgage receivable	2,594,326	-	2,594,326
Total program expenses	4,333,285	-	4,333,285
Support expenses			
Fundraising	253,279	-	253,279
Management and general	365,829	-	365,829
Total support expenses	619,108	-	619,108
Total expenses	4,952,393	-	4,952,393
Change in net assets	(151,380)	777,810	626,430
Net assets, beginning of year	5,912,610	928,326	6,840,936
Net assets, end of year	$ 5,761,230	$ 1,706,136	$ 7,467,366

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

STATEMENT OF ACTIVITIES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Without Donor Restrictions	With Donor Restrictions	Total
REVENUE AND OTHER SUPPORT			
Contributions	$ 674,565	$ 249,684	$ 924,249
Bequests	39,550	-	39,550
Grants	319,117	-	319,117
Special events	327,750	-	327,750
Sales of completed houses	1,754,500	-	1,754,500
ReStore income	1,497,100	-	1,497,100
Other income	138,556	-	138,556
Mortgage discount amortization	557,895	-	557,895
Interest income	1,390	-	1,390
Net assets released from restrictions	299,030	(299,030)	-
Total revenue and other support	5,609,453	(49,346)	5,560,107
EXPENSES			
Program expenses			
Community relations	36,002	-	36,002
Family services	427,689	-	427,689
Volunteer services	148,514	-	148,514
ReStore project	1,158,195	-	1,158,195
Home building, inclusive of $1,175,662 of discount amortization on mortgage receivable	4,274,133	-	4,274,133
Total program expenses	6,044,533	-	6,044,533
Support expenses			
Fundraising	231,837	-	231,837
Management and general	394,963	-	394,963
Total support expenses	626,800	-	626,800
Total expenses	6,671,333	-	6,671,333
Change in net assets	(1,061,880)	(49,346)	(1,111,226)
Net assets, beginning of year	6,974,490	977,672	7,952,162
Net assets, end of year	$ 5,912,610	$ 928,326	$ 6,840,936

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2018

	Community Relations	Family Services	Volunteer Services	ReStore Project	Home Building	Total Program	Fundraising	Management and General	Total
Costs of houses sold	$ -	$ -	$ -	$ -	$ 1,076,126	$ 1,076,126	$ -	$ -	$ 1,076,126
Other expenses									
Personnel costs	35,537	247,435	102,574	279,757	357,048	1,022,351	176,655	190,401	1,389,407
Rent and related occupancy	-	14,951	3,738	387,013	134,563	540,265	11,214	14,951	566,430
Sub-contractor labor	-	-	-	255,395	4,163	259,558	-	420	259,978
Professional fees	-	9,017	10,357	-	14,692	34,066	-	11,640	45,706
Employee benefits	2,750	32,572	15,554	16,360	44,706	111,942	16,122	27,391	155,455
Interest	-	-	-	-	100,367	100,367	-	-	100,367
Insurance	-	-	-	-	90,618	90,618	-	26,969	117,587
Payroll taxes	2,309	17,265	7,202	20,899	25,524	73,199	12,237	11,112	96,548
Supplies and inventory	-	-	-	25,913	18,398	44,311	-	-	44,311
Utilities	-	-	-	44,951	17,211	62,162	-	10,329	72,491
Vehicle	-	-	-	38,240	4,709	42,949	-	-	42,949
Maintenance and repairs	-	-	-	42,051	1,008	43,059	-	13,130	56,189
Bank and credit card fees	-	-	-	24,753	-	24,753	-	13,274	38,027
Computer expenses	-	1,127	3,382	949	-	5,458	11,626	17,280	34,364
Advertising and promotion	-	3,624	4,458	3,498	-	11,580	16,397	-	27,977
Dues and subscriptions	-	2,500	625	7,500	3,825	14,450	2,134	7,603	24,187
Fuel/other expenses	-	-	-	17,679	5,295	22,974	-	-	22,974
Office supplies	-	1,281	1,967	20,248	2,077	25,573	2,272	12,154	39,999
NMTC affiliate fees	-	-	-	-	21,244	21,244	-	-	21,244
Telephone	-	1,502	885	8,417	3,605	14,409	2,180	1,575	18,164
Other office expenses	-	856	214	953	1,285	3,308	642	906	4,856
Tithe to national affiliate	-	-	-	-	5,000	5,000	-	-	5,000
Real estate owned	-	-	-	-	9,245	9,245	-	-	9,245
Postage and freight	-	627	-	686	101	1,414	1,662	3,002	6,078
Travel, meals, entertainment	-	136	1,808	467	185	2,596	138	1,153	3,887
Training	-	418	-	-	300	718	-	2,539	3,257
Loss on sale of assets	-	-	-	-	10,000	10,000	-	-	10,000
Total expenses before discount amortization on mortgage receivable and depreciation	40,596	333,311	152,764	1,195,729	1,951,295	3,673,695	253,279	365,829	4,292,803
Discount amortization on mortgage receivable	-	-	-	-	593,852	593,852	-	-	593,852
Depreciation/amortization	-	-	-	16,559	49,179	65,738	-	-	65,738
Total expenses	$ 40,596	$ 333,311	$ 152,764	$ 1,212,288	$ 2,594,326	$ 4,333,285	$ 253,279	$ 365,829	$ 4,952,393

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

FOR THE YEAR ENDED DECEMBER 31, 2017

	Community Relations	Family Services	Volunteer Services	ReStore Project	Home Building	Total Program	Fundraising	Management and General	Total
Costs of houses sold	$ -	$ -	$ -	$ -	$ 2,201,061	$ 2,201,061	$ -	$ -	$ 2,201,061
Other expenses									
Personnel costs	34,339	243,701	100,224	246,747	301,855	926,866	164,758	148,697	1,240,321
Rent and related occupancy	-	16,761	4,190	396,803	138,278	556,032	8,381	16,761	581,174
Sub-contractor labor	-	-	-	252,369	106	252,475	-	420	252,895
Professional fees	-	105,792	12,056	-	23,291	141,139	-	104,750	245,889
Employee benefits	507	30,871	13,960	10,848	47,079	103,265	14,735	22,609	140,609
Interest	-	-	-	-	114,983	114,983	-	-	114,983
Insurance	-	-	-	-	82,093	82,093	-	27,141	109,234
Payroll taxes	1,156	18,419	6,297	18,425	28,810	73,107	13,533	9,528	96,168
Supplies and inventory	-	-	-	43,033	19,184	62,217	-	-	62,217
Utilities	-	-	-	37,016	12,684	49,700	-	7,780	57,480
Vehicle	-	-	-	45,646	607	46,253	-	-	46,253
Maintenance and repairs	-	-	-	33,037	3,351	36,388	-	3,966	40,354
Bank and credit card fees	-	-	-	20,025	-	20,025	-	13,231	33,256
Computer expenses	-	-	2,554	2,638	-	5,192	10,630	15,187	31,009
Advertising and promotion	-	3,502	5,017	3,637	202	12,358	12,490	60	24,908
Dues and subscriptions	-	2,857	1,315	6,646	4,458	15,276	1,563	5,399	22,238
Fuel/other expenses	-	-	-	15,826	5,725	21,551	-	-	21,551
Office supplies	-	1,297	391	8,136	4,618	14,442	1,706	5,394	21,542
NMTC affiliate fees	-	-	-	-	19,225	19,225	-	-	19,225
Telephone	-	1,636	1,210	3,794	4,254	10,894	1,958	2,893	15,745
Other office expenses	-	1,730	433	825	2,163	5,151	865	4,857	10,873
Tithe to national affiliate	-	-	-	-	10,000	10,000	-	-	10,000
Real estate owned	-	-	-	-	8,937	8,937	-	-	8,937
Postage and freight	-	1,058	35	952	72	2,117	1,001	3,441	6,559
Travel, meals, entertainment	-	65	832	835	1,640	3,372	217	1,306	4,895
Training	-	-	-	-	1,085	1,085	-	1,543	2,628
Loss on sale of assets	-	-	-	-	12,500	12,500	-	-	12,500
Total expenses before discount amortization on mortgage receivable and depreciation	36,002	427,689	148,514	1,147,238	3,048,261	4,807,704	231,837	394,963	5,434,504
Discount amortization on mortgage receivable	-	-	-	-	1,175,662	1,175,662	-	-	1,175,662
Depreciation/amortization	-	-	-	10,957	50,210	61,167	-	-	61,167
Total expenses	$ 36,002	$ 427,689	$ 148,514	$ 1,158,195	$ 4,274,133	$ 6,044,533	$ 231,837	$ 394,963	$ 6,671,333

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

HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2018 AND 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ 626,430	$ (1,111,226)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	48,049	43,479
Net amortization deferred asset & liabilities	17,689	17,689
Loss on sale of mortgage	10,000	12,500
Mortgage discount amortization income	(542,966)	(557,895)
Mortgage discount amortization expense	593,852	1,175,661
CHFA mortgage discount	37,577	50,827
(Increase)/decrease in assets:		
Grant and other receivables	458,080	407,827
Units for resale - cash buy backs	(40,663)	(5,455)
Units for resale - sold during the year	53,848	435,159
Construction in progress	(526,351)	442,993
Other assets	(3,700)	(481)
Increase/(decrease) in liabilities		
Accounts payable and accrued expenses	10,777	86,102
Net change in cash from operating activities	742,622	997,180
Cash flows from investing activities:		
Purchase of property and equipment	(86,050)	(12,072)
Principal receipts on mortgage receivable	675,866	561,019
New loans originated	(978,000)	(1,754,500)
Investments in partnerships	1,093	(35,266)
Net change in cash from investing activities	(387,091)	(1,240,819)
Cash flows from financing activities:		
Principal payments on notes payable	(141,643)	(126,971)
Proceeds from notes payable	52,380	-
Net change in cash from financing activities	(89,263)	(126,971)
Change in cash and cash equivalents	266,268	(370,610)
Cash and cash equivalents, beginning of year	776,290	1,146,900
Cash and cash equivalents, end of year	$ 1,042,558	$ 776,290
Supplemental disclosures of cash flow information		
Cash paid for interest	$ 62,790	$ 64,156
Noncash operating and financing transactions		
Amortization of mortgage notes receivable discount	$ 593,852	$ 1,175,661
Amortization of notes payable discount	$ 37,577	$ 50,827

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

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES

Habitat for Humanity of Coastal Fairfield County (the "Organization") is a not-for-profit organization that provides home ownership for responsible low-income families through new construction or renovation of existing housing stock. The Organization also operates a not-for-profit retail store, ReStore, which sells discounted used furniture and building supplies. The Organization's programs are supported by contributions, grants, ReStore and receipts of homeowner mortgage repayments. Houses are sold to the homeowners at below cost. The Organization provides a mortgage for 100% of the purchase price, at 0% interest. Repayments on these mortgages contribute to the production of additional housing.

Basis of Accounting
The financial statements of the Organization have been prepared on the accrual basis.

Basis of Presentation
Financial statement presentation follows *Financial Statements of Not-for-Profit Organizations* topic of the Financial Accounting Standards Board Codification ("ASC"). Under this topic, the Organization reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets, revenues, expenses, gains, and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

> *Net assets without donor restrictions* – These net assets are defined as assets that are free of donor-imposed restrictions and include all investment income and appreciation not subject to donor-imposed restrictions.
>
> *Net assets with donor restrictions* – These net assets include contributions, unconditional promises to give and other inflows of assets whose use by the Organization is limited by donor imposed stipulations that either expire by the passage of time or can be fulfilled and removed by actions of the Organization.

Restricted Cash
The Organization restricts the use of cash which has been set aside for specific housing projects and charitable pursuits.

Cash and Cash Equivalents
Cash and cash equivalents include cash and all highly liquid instruments with an original maturity of three months or less. The Organization maintains its cash in bank accounts which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Property and Equipment
The Organization capitalizes all expenditures for property and equipment in excess of $2,500. Purchased property and equipment are carried at cost. Donated property and equipment are carried at the approximate fair value at the date of donation. Depreciation is computed using the straight-line method over their estimated useful lives. Estimated lives for financial reporting purposes are as follows:

Building	10 years
Furniture and fixtures	5 - 7 years
Equipment	5 years
Vehicles	5 years

Expenditures for repairs and maintenance are charged to expense as incurred. For assets sold or otherwise disposed of, the cost and related accumulated depreciation are removed from the accounts, and any resulting gain or loss is reflected in income for the period.

Contributions
The Organization reports gifts of cash and other assets as 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, 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. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized.

Donated materials used in renovation and construction of homes are recorded at estimated fair value at date of receipt. Total donated materials amounted to $83,661 and $68,609 for the years ended December 31, 2018 and 2017, respectively.

A substantial number of volunteers have donated time to the Organization by helping in the construction and renovation of houses or in providing support services. No amounts have been included in the financial statements for donated services because they did not meet the criteria for recognition. Total volunteer hours calculated were approximately 56,000 and 57,000 for the years ended December 31, 2018 and 2017, respectively.

Donated Goods
ReStore inventory consists of donated home furnishings, building supplies, paint and paint supplies, flooring, and other home improvement items. No amounts have been recognized in the accompanying statement of activities for these goods because the criteria for recognition under the Not-for-Profit Entities topic of the FASB Accounting Standards Codification (FASB ASC 958) have not been satisfied.

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

The financial statements report certain categories of expenses that are attributable to one or more supporting functions of the Organization. Those expenses include rent and related occupancy expenses, personnel costs, employee benefits and computer expenses. Rent and related occupancy expenses are allocated by square footage and then by head count for shared spaces. Personnel costs and certain employee benefits are allocated by estimates of time and effort. Computer expenses are allocated by costs of specific technology utilized.

NOTE 1 – ORGANIZATION AND SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

Use of Estimates
The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affects certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Tax Exempt Status
The Organization is exempt from Federal income taxes as a public charity under Internal Revenue Code Section 501(c)(3) and from Connecticut income taxes; therefore, no provision has been made for Federal or State income taxes in the accompanying financial statements.

Receivables
Grant and other receivables arising from regular operations are stated net of an allowance for doubtful accounts. Allowances are set based on assessments by management as to the collectability of individual accounts. There was no allowance for doubtful accounts for the years ended December 31, 2018 and 2017.

Recently Adopted Accounting Standards
For the year ended December 31, 2018, the Organization adopted the Financial Accounting Standard Board's Accounting Standards Update (ASU) No. 2016-14 – Not-for-Profit Entities (Topic 958): Presentation of Financial Statements of Not-for-Profit Entities. This updated addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return between not-for-profit entities. The changes required by the update have been applied retrospectively to all periods presented. A key change required by ASU 2016-14 are the net asset classes used in these financial statements. Amounts previously reported as unrestricted net assets are now reported as net assets without donor restrictions and amounts previously reported as temporarily restricted net assets and permanently restricted net assets, if applicable, are now reported as net assets with donor restrictions.

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

Subsequent Events Measurement Date
The Organization monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for fiscal year ended December 31, 2018 through April 15, 2019, the date on which the financial statements were available to be issued.

NOTE 2 – MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable represent non-interest bearing amounts due from individuals who have purchased homes constructed by the Organization. These amounts are to be paid over terms ranging from twenty to forty years. Mortgage notes receivable consist of the following at December 31,:

	2018	2017
Mortgage notes receivable	$ 12,262,844	$ 12,126,204
Unamortized discount on non-interest bearing mortgage receivables	(6,174,342)	(6,123,456)
Net present value	$ 6,088,502	$ 6,002,748

NOTE 2 – MORTGAGE NOTES RECEIVABLE *(CONTINUED)*

Since the above referred mortgage notes are non-interest bearing, the net present value of each of these notes is less than face value. The net present value of these notes was determined using an imputed interest rate ranging between 6.00% and 9.00%. These interest rates are used in the discount calculation and are reviewed on an annual basis. Assumptions are based on ever changing market conditions. The servicing of these mortgages is performed by a third party. The change in the unamortized discount is reflected in income.

Maturities of the mortgage notes receivable over the next five years and thereafter are as follows:

For the years ending December 31:	
2019	$ 653,375
2020	653,375
2021	650,888
2022	645,961
2023	638,911
Thereafter	9,020,334
	$ 12,262,844

NOTE 3 – INVESTMENTS IN PARTNERSHIPS

During April 2012 and December 2013, the Organization participated in two New Market Tax Credit ("NMTC") programs. The programs provide funds to eligible organizations for investment in qualified low-income community investments. Program compliance requirements include creation of a promissory note and investment in a qualified community development entity ("CDE or sub-CDE"). Tax credit recapture is required if compliance requirements are not met over a seven-year period. In April 2012, the Organization invested, along with several other Habitat affiliates, in a joint venture named CCML Leverage I, LLC to take advantage of the NMTC financing. The Organization has a 9.99% ownership in this Partnership. As a result, the Organization initially invested $1,448,867 (combination of cash and work-in-process inventory) and was able to secure a 16-year loan in the amount of $1,880,000 payable to the sub-CDE named CCM Community Development XVII, LLC. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. The loan requires semi-annual interest only payments until May 5, 2020 at 0.77%. Commencing May 5, 2020, semi-annual principal and interest payments are due through the maturity date of April 11, 2028. In December 2013, the Organization invested, along with several other Habitat affiliates, in a joint venture named HFH Northeast 1 Leverage Lender, LLC to take advantage of the NMTC financing. The Organization has a 21.36% ownership in this Partnership. As a result, the Organization initially invested $1,211,500 (combination of cash and work-in-process inventory) and was able to secure a 30-year loan in the amount of $1,674,570 payable to the sub-CDE named Citi NMTC Subsidiary CDE XVI, LLC. The loan proceeds are to be used solely for the purpose of constructing and selling qualified housing properties to low income residents. Commencing May 5, 2014, the loan requires semi-annual interest only payments until November 5, 2020 at 1.03%. Commencing May 5, 2021, semi-annual principal and interest payments are due through the maturity date of December 29, 2043. The loans are secured by substantially all the assets acquired by the Organization from the project's loan proceeds. The loans have a put feature option that is exercisable in May 2020 and January 2021, respectively. Under the terms of the put option agreement, the joint venture is expected to purchase the ownership interest of the affiliated investment fund that is the upstream effective owner of the sub-CDE, and holder of the promissory note due from the Organization, as long as compliance requirements are met. Exercise of this option will effectively allow the Organization to extinguish its outstanding debt owed to the affiliated investment fund.

NOTE 3 – INVESTMENTS IN PARTNERSHIPS *(CONTINUED)*

The investments are recorded using the equity method as follows as of December 31,:

	2018	2017
CCML Leverage I, LLC	$ 1,604,436	$ 1,581,284
HFH Northeast 1 Leverage Lender, LLC	1,211,516	1,235,761
	$ 2,815,952	$ 2,817,045

NOTE 4 – UNITS FOR RESALE

Units for resale are comprised of properties that have been re-acquired by the Organization through either a sale transaction with an existing homeowner or a foreclosure. Properties are foreclosed upon after the homeowner has become seriously delinquent in their loan payments and all reasonable attempts to work with the homeowner have failed. These properties are rehabilitated and sold to a new low-income family, consistent with the Organization's mission. The balance of the real estate owned as of December 31, 2018 and 2017 is $304,902 and $195,366, respectively.

NOTE 5 – CONSTRUCTION IN PROGRESS

Construction in progress represents cumulative amounts expended to date on land, building, and renovation costs on properties to be sold.

NOTE 6 – PROPERTY AND EQUIPMENT

Property and equipment consist of the following, at December 31,:

	2018	2017
Building	$ 194,921	$ 194,921
Furniture and fixtures	32,127	28,727
Equipment	60,873	60,873
Vehicles	275,779	193,129
Leaseholds - ReStore	34,901	34,901
	598,601	512,551
Accumulated depreciation	(472,250)	(424,200)
	$ 126,351	$ 88,351

Depreciation expense for the years ended December 31, 2018 and 2017 was $48,050 and $43,479, respectively.

NOTE 7 – DEFERRED ASSETS

Deferred assets at December 31, 2018 and 2017 consist of the following:

	2018	2017
Guarantor fees	$ 243,852	$ 243,852
Closing costs	94,602	94,602
Structure and servicing fee	25,631	25,631
	364,085	364,085
Accumulated amortization	(255,470)	(215,374)
	$ 108,615	$ 148,711

Amortization expense for the years ended December 31, 2018 and 2017 was $40,097.

Amortization of deferred assets over the next five years and thereafter are as follows:

For the years ending December 31:	
2019	$ 18,547
2020	11,364
2021	5,261
2022	5,261
2023	5,261
Thereafter	62,921
	$ 108,615

NOTE 8 – LINES OF CREDIT

The Organization has a $300,000 line of credit, with $-0- drawn on December 31, 2018 and 2017. The Organization also has another $300,000 line of credit, with $-0- drawn on December 31, 2018 and 2017. Both lines of credit are renewable annually, and have interest rates of prime which was 5.5%. The lines are secured by all assets of the Organization.

NOTE 9 – NOTES PAYABLE AND LONG-TERM DEBT

The following is a summary of the principal balances of notes payable at December 31, 2018 and 2017:

Payable to	Current interest rate	Maturity date	2018	2017
Citizens Bank	2.00%	November, 2021	$ 500,000	$ 500,000
Isuzu Finance of America, Inc.	6.79%	March, 2022	52,380	-
Habitat for Humanity International - Flex Cap	4.75%	December, 2026	406,076	446,879
Mutual Housing Association of Southwestern CT	0.00%	September, 2045	61,143	63,429
Connecticut Housing Finance Authority	0.00%	November, 2041	1,030,288	1,149,659
Key Bank	0.00%	December, 2031	41,707	45,158
Fairfield County Bank Corporation	0.00%	January, 2034	105,781	114,286
CCM Community Development XVII, LLC	0.77%	April, 2028	1,880,000	1,880,000
Citi NMTC Subsidiary CDE XVI, LLC	1.03%	December, 2043	1,674,570	1,674,570
Total notes payable, before discount			5,751,945	5,873,981
Discount			(362,450)	(400,027)
Total notes payable, net present value			$5,389,495	$5,473,954

NOTE 9 – NOTES PAYABLE *(CONTINUED)*

Aggregate principal payments on the notes payable over the next five years and thereafter are, as follows:

For the years ending December 31:	
2019	$ 155,772
2020	157,840
2021	659,801
2022	147,857
2023	139,315
Thereafter	4,491,360
	$5,751,945

The Citizens Bank note is unsecured. All other notes are secured by various individual properties.

The Organization sold loans issued to homeowners to Key Bank, Fairfield County Bank Corporation and Connecticut Housing Finance Authority (CHFA). These loans were sold with recourse, meaning that the Organization has an obligation to repurchase these loans if certain conditions of the sale are not met. The recourse is in place until the loan has been repaid. As a result of the obligation to repurchase, these transactions were not treated as a sale. The outstanding balance of these loans is included in the mortgages receivable balance on the statements of financial position. The discount on these sold loans is included in the discount balance on the statements of financial position.

The notes payable that were made available through CHFA, Fairfield County Bank Corporation and Key Bank are non-interest bearing notes. As such, the net present value of each of these notes is less than face value. The net present value of these notes (at an imputed interest rate of 6.50%) is $667,838 and $749,632 at December 31, 2018 and 2017, respectively. The change in the discount on notes payable is reflected in interest expense.

NOTE 10 – RETIREMENT BENEFITS

The Organization has a discretionary contribution retirement plan called "Habitat 401(k) Plan". Participants must be 21 years old and have one year of eligible service with at least 1,000 hours of service. Participants may make a pre-tax savings contribution to the Plan. The Organization makes a safe harbor non-elective contribution equal to 3% of participants' compensation. Each year the Organization, at its discretion, may make a matching contribution. For the year ended December 31, 2018, the Organization's contribution is expected to be $48,000. For the year ended December 31, 2017, the Organization's contribution was $45,078.

NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS

Net assets of $1,706,136 and $928,326 as of December 31, 2018 and 2017, respectively were restricted by donors for the purpose of housing construction. Net assets with donor restrictions of $119,509 and $299,030 as of December 31, 2018 and 2017, respectively were released from restriction to be used for housing construction.

NOTE 12 – LEASES

The Organization leases office and warehouse space for $10,696 per month with scheduled rent increases and additional common area maintenance (CAM) charges. The amended lease expires in September 2023. The Organization also leases retail space for the ReStore for $22,371 per month, with scheduled rent increases and additional CAM charges. The ReStore lease was amended during 2015, with 10,000 square feet of additional space being added to the lease and set to expire in August 2020, with an option to extend through August 2025. The Organization also leases office equipment for a base rate of $1,083 per month, expiring in August 2020. Scheduled minimum lease payments over the next five years are as follows:

For the years ended December 31:	
2019	$ 411,929
2020	320,492
2021	130,817
2022	130,817
2023	98,728

NOTE 13 – LIQUIDITY

The Organization's financial assets available within one year of the balance sheet date for general expenditure are, as follows:

Cash and cash equivalents	$ 516,582
Grant and other receivable	37,004
Mortgage notes receivable, current portion	653,375
Financial assets available to meet cash needs for general expenditures within one year	$ 1,206,961

The Organization manages its cash available to meet general expenditures following three guiding principles:

- Operating within a prudent range of financial soundness and stability;
- Maintaining adequate liquid assets; and
- Maintaining sufficient reserves to provide reasonable assurance that long term commitments and obligations will continue to be met, ensuring the sustainability of the Organization.

To help manage unanticipated liquidity needs, the Organization has committed lines of credit in the amount of $600,000 which it could draw upon. Additionally, the Organization has an existing agreement with the CHFA which allows the Organization to sell its mortgage receivables for cash proceeds. As of December 31, 2018 the Organization has $9,445,236 in unpledged, undiscounted mortgage receivables.

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