# HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

Independent Auditors' Report
Financial Statements

December 31, 2019 and 2018

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# HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

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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, 2019 and 2018, 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, 2019 and 2018, 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
March 26, 2020

## HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

### STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **ASSETS** | | |
| Current assets: | | |
| Cash and cash equivalents | $ 836,136 | $ 516,582 |
| Restricted cash | 513,482 | 525,976 |
| Grant and other receivables | 166,282 | 587,004 |
| Mortgage notes receivable, current portion | 707,733 | 653,375 |
| Units for resale | 341,483 | 304,902 |
| Construction in progress | 1,661,784 | 2,032,260 |
| Other assets | 26,879 | 22,730 |
| Total current assets | 4,253,779 | 4,642,829 |
| Noncurrent assets: | | |
| Property and equipment, net | 100,276 | 126,351 |
| Deferred assets, net - NMTC | 69,354 | 108,615 |
| Investments in partnerships | 1,211,516 | 2,815,952 |
| Mortgage notes receivable, net of current portion and discount of $6,598,514 and $6,174,342, respectively | 5,711,366 | 5,435,127 |
| Total noncurrent assets | 7,092,512 | 8,486,045 |
| Total assets | $ 11,346,291 | $ 13,128,874 |
| **LIABILITIES AND NET ASSETS** | | |
| Current liabilities: | | |
| Accounts payable and accrued expenses | $ 246,188 | $ 266,411 |
| Deferred revenue - HTCC | 320,000 | - |
| Deferred revenue - NMTC | - | 5,602 |
| Notes payable, current portion | 192,516 | 155,772 |
| Total current liabilities | 758,704 | 427,785 |
| Noncurrent liabilities: | | |
| Notes payable, net of current portion and discount of $679,581 and $362,450, respectively | 2,006,736 | 1,679,153 |
| Long-term debt - other | 1,674,570 | 3,554,570 |
| Total noncurrent liabilities | 3,681,306 | 5,233,723 |
| Total liabilities | 4,440,010 | 5,661,508 |
| Net assets: | | |
| Without donor restrictions | 6,401,799 | 5,761,230 |
| With donor restrictions | 504,482 | 1,706,136 |
| Total net assets | 6,906,281 | 7,467,366 |
| Total liabilities and net assets | $ 11,346,291 | $ 13,128,874 |

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

# HABITAT FOR HUMANITY OF COASTAL FAIRFIELD COUNTY, INC.

## STATEMENTS OF ACTIVITIES

### FOR THE YEARS ENDED DECEMBER 31, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Changes in net assets without donor restrictions:** | | |
| Program support and revenue: | | |
| Contributions | $ 944,006 | $ 936,916 |
| Grants | 148,251 | 103,565 |
| Events | 167,099 | 270,733 |
| Sales of completed houses | 1,505,000 | 978,000 |
| Restore income | 1,639,078 | 1,616,528 |
| Bequests | 9,147 | 25,625 |
| Other income | 139,515 | 199,938 |
| Gain/(loss) on sale of mortgages | 364,828 | (10,000) |
| Total program support and revenue | 4,916,924 | 4,121,305 |
| Expenses: | | |
| Program services | | |
| Community relations | 47,847 | 40,596 |
| Family services | 314,052 | 333,311 |
| Volunteer services | 146,813 | 152,764 |
| ReStore project | 1,366,834 | 1,212,288 |
| Home building, inclusive of $910,410 and $593,852 of discount amortization on mortgage receivable | 3,808,428 | 2,584,326 |
| Total program expenses | 5,683,974 | 4,323,285 |
| Support expenses | | |
| Fundraising | 249,823 | 253,279 |
| Management and general | 346,975 | 365,829 |
| Total support expenses | 596,798 | 619,108 |
| Total expenses | 6,280,772 | 4,942,393 |
| Change in net assets without donor restrictions before other revenue/(expenses) | (1,363,848) | (821,088) |
| Other revenue/(expenses): | | |
| Interest income | 26,948 | 7,233 |
| Mortgage discount amortization | 486,238 | 542,966 |
| NMTC gain, net | 289,577 | - |
| Net assets released from program and time restrictions | 1,201,654 | 119,509 |
| Total other revenue/(expenses) | 2,004,417 | 669,708 |
| Changes in net assets without donor restrictions | 640,569 | (151,380) |
| **Changes in net assets with donor restrictions:** | | |
| Contributions | - | 897,320 |
| Net assets released from program and time restrictions | (1,201,654) | (119,509) |
| Changes in net assets with donor restrictions | (1,201,654) | 777,811 |
| Total change in net assets | (561,085) | 626,431 |
| Net assets, beginning of year | 7,467,366 | 6,840,935 |
| Net assets, end of year | $ 6,906,281 | $ 7,467,366 |

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, 2019

| | Community Relations | Family Services | Volunteer Services | ReStore Project | Home Building | Total Program | Fundraising | Management and General | Total |
|---|---|---|---|---|---|---|---|---|---|
| Costs of houses sold | $ - | $ - | $ - | $ - | $ 1,900,862 | $ 1,900,862 | $ - | $ - | $ 1,900,862 |
| Other expenses | | | | | | | | | |
| Personnel costs | 42,476 | 238,774 | 100,892 | 335,496 | 388,478 | 1,106,116 | 166,357 | 166,814 | 1,439,287 |
| Rent and related occupancy | - | 17,274 | 4,318 | 387,266 | 142,507 | 551,365 | 12,955 | 12,955 | 577,275 |
| Sub-contractor labor | - | - | 288 | 295,061 | - | 295,349 | - | 585 | 295,934 |
| Professional fees | - | 2,015 | 11,440 | - | - | 13,455 | - | 26,563 | 40,018 |
| Employee benefits | 1,894 | 26,279 | 10,596 | 22,231 | 40,022 | 101,022 | 21,918 | 28,672 | 151,612 |
| Interest | - | - | - | - | 131,798 | 131,798 | - | - | 131,798 |
| Insurance | - | - | - | - | 99,049 | 99,049 | - | 27,514 | 126,563 |
| Payroll taxes | 3,477 | 17,137 | 9,278 | 25,212 | 44,800 | 99,904 | 12,160 | 13,959 | 126,023 |
| Supplies and inventory | - | - | - | 43,110 | 9,106 | 52,216 | 38 | 167 | 52,421 |
| Utilities | - | - | - | 44,644 | 19,157 | 63,801 | - | 4,158 | 67,959 |
| Vehicle | - | - | - | 36,533 | 4,597 | 41,130 | - | - | 41,130 |
| Maintenance and repairs | - | - | - | 52,967 | 5,096 | 58,063 | 58 | 4,814 | 62,935 |
| Bank and credit card fees | - | - | - | 34,956 | - | 34,956 | - | 10,818 | 45,774 |
| Computer expenses | - | 701 | 2,103 | 1,188 | - | 3,992 | 7,513 | 25,251 | 36,756 |
| Advertising and promotion | - | 3,591 | 4,304 | 7,679 | 319 | 15,893 | 14,930 | - | 30,823 |
| Dues and subscriptions | - | 3,490 | 625 | 8,429 | 5,600 | 18,144 | 2,025 | 5,635 | 25,804 |
| Fuel/other expenses | - | - | - | 18,395 | 4,331 | 22,726 | - | - | 22,726 |
| Office supplies | - | 1,000 | 476 | 25,088 | 1,736 | 28,300 | 2,575 | 8,072 | 39,447 |
| NMTC affiliate fees | - | - | - | - | 10,258 | 10,258 | - | - | 10,258 |
| Telephone | - | 1,566 | 1,365 | 7,412 | 3,000 | 13,343 | 1,724 | 1,544 | 16,611 |
| Other office expenses | - | 1,042 | 238 | 975 | 1,950 | 4,205 | 804 | 755 | 5,264 |
| Tithe to national affiliate | - | - | - | - | 15,000 | 15,000 | - | - | 15,000 |
| Real estate owned | - | - | - | - | 4,326 | 4,326 | - | - | 4,326 |
| Postage and freight | - | 1,032 | - | 112 | - | 1,144 | 4,504 | 1,673 | 7,321 |
| Travel, meals, entertainment | - | 151 | 800 | 996 | 429 | 2,376 | 2,262 | 5,885 | 10,523 |
| Training | - | - | 90 | 400 | 3,000 | 3,490 | - | 1,141 | 4,631 |
| Total expenses before discount amortization on mortgage receivable and depreciation | 47,847 | 314,052 | 146,813 | 1,348,150 | 2,835,421 | 4,692,283 | 249,823 | 346,975 | 5,289,081 |
| Discount amortization on mortgage receivable | - | - | - | - | 910,410 | 910,410 | - | - | 910,410 |
| Depreciation/amortization | - | - | - | 18,684 | 62,597 | 81,281 | - | - | 81,281 |
| Total expenses | $ 47,847 | $ 314,052 | $ 146,813 | $ 1,366,834 | $ 3,808,428 | $ 5,683,974 | $ 249,823 | $ 346,975 | $ 6,280,772 |

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 |
| Total expenses before discount amortization on mortgage receivable and depreciation | 40,596 | 333,311 | 152,764 | 1,195,729 | 1,941,295 | 3,663,695 | 253,279 | 365,829 | 4,282,803 |
| 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 | $ 2,584,326 | $ 4,323,285 | $ 253,279 | $ 365,829 | $ 4,942,393 |

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, 2019 AND 2018

| | 2019 | 2018 |
|---|---|---|
| **Cash flows from operating activities:** | | |
| Change in net assets | $ (561,092) | $ 626,430 |
| Adjustments to reconcile change in net assets to net change in cash from operating activities: | | |
| Depreciation | 42,020 | 48,049 |
| Net amortization deferred asset & liabilities | 39,261 | 17,689 |
| Loss on sale of mortgage | - | 10,000 |
| Mortgage discount amortization income | (486,238) | (542,966) |
| Mortgage discount amortization expense | 910,411 | 593,852 |
| CHFA mortgage discount | (317,131) | 37,577 |
| NMTC gain, net | (289,577) | - |
| (Increase)/decrease in assets: | | |
| Grant and other receivables | 420,722 | 458,080 |
| Units for resale - cash buy backs | (29,960) | (40,663) |
| Units for resale - sold during the year | 77,748 | 53,848 |
| Construction in progress | 370,478 | (526,351) |
| Other assets | (4,148) | (3,700) |
| Increase/(decrease) in liabilities | | |
| Accounts payable and accrued expenses | (72,602) | 10,777 |
| Deferred revenue | 314,398 | - |
| Net change in cash from operating activities | 414,290 | 742,622 |
| **Cash flows from investing activities:** | | |
| Purchase of property and equipment | (15,945) | (86,050) |
| Principal receipts on mortgage receivable | 582,873 | 675,866 |
| New loans originated | (1,505,000) | (978,000) |
| Investments in partnerships | 14,013 | 1,093 |
| Net change in cash from investing activities | (924,059) | (387,091) |
| **Cash flows from financing activities:** | | |
| Principal payments on notes payable | (152,624) | (141,643) |
| Proceeds from notes payable | 969,453 | 52,380 |
| Net change in cash from financing activities | 816,829 | (89,263) |
| Change in cash, cash equivalents and restricted cash | 307,060 | 266,268 |
| Cash, cash equivalents and restricted cash, beginning of year | 1,042,558 | 776,290 |
| Cash, cash equivalents and restricted cash, end of year | $ 1,349,618 | $ 1,042,558 |
| **Supplemental disclosures of cash flow information** | | |
| Cash paid for interest | $ 30,823 | $ 62,790 |
| **Noncash operating and financing transactions** | | |
| Amortization of mortgage notes receivable discount | $ 910,410 | $ 593,852 |

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.

*Revenue and Revenue Recognition*

*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 and Services* – Donated materials used in renovation and construction of homes are recorded at estimated fair value at date of receipt. Total donated materials amounted to $101,207 and $83,661 for the years ended December 31, 2019 and 2018, 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 43,000 and 56,000 for the years ended December 31, 2019 and 2018, 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.

*Sales to Homeowners* – Homes are sold to buyers that meet the Organization's qualification guidelines. The resulting mortgage are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The sales to homeowners in the statement of activities and changes in net assets are presented net of the applicable discount. The Organization recognizes the income from sales to homeowners on the completed contract method when home closings occur.

*Grants and Contracts* – A portion of the Organization's revenue is derived from cost-reimbursable state contracts and grants, which are conditioned upon certain performance requirements and/or the incurrence of allowable qualifying expenses. Amounts received are recognized as revenue when the Organization has incurred expenditures in compliance with specific contract or grant provisions. Amounts received prior to incurring qualifying expenditures are reported as deferred revenue in the statement of financial position. The Organization received cost-reimbursable grants of $320,000 that have not been recognized at December 31, 2019 because qualifying expenditures have not yet been incurred, with an advance payment of $320,000 recognized in the statement of financial position as deferred revenue.

*Special Events* – The Organization records special events revenue equal to the fair value of direct benefits to donors, and contribution income for the excess received when the event takes place. The Organization recognizes revenue from ticket sales at the time of admission.

*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.

*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, 2019 and 2018.

*Recently Adopted Accounting Standards*

For the year ended December 31, 2019, the Corporation adopted ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The update addresses the classification and presentation of changes in restricted cash on the statements of cash flows. A key change required by ASU No. 2016-18 is that restricted cash controlled by the Corporation is now included in the statements of cash flows. The ASU has been applied retrospectively to all periods presented.

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

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the statements of financial position that sum to the total of the same amounts shown in the statements of cash flows.

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 836,136 | $ 516,582 |
| Restricted cash | 513,482 | 525,976 |
| Total cash, cash equivalents, and restricted cash shown in the statement of cash flows | $ 1,349,618 | $ 1,042,558 |

Effective January 1, 2019, the Organization adopted ASU No. 2018-08 – Not-For-Profit Entities (Topic 958): "Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made." The update clarifies guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution accounted for under Subtopic 958-605, or an exchange transaction accounted for under other guidance (for example, Topic 606). The application of this guidance did not have an impact on the financial statements.

Effective January 1, 2019, the Organization adopted ASU No. 2014-09 – Revenue from Contracts with Customers (Topic 606). This ASU establishes a single comprehensive model for an entity to recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled, and will supersede nearly all existing revenue recognition guidelines, to clarify and converge revenue recognition principles under US GAAP and International Financial Reporting Standards (IFRS). The update requires more comprehensive disclosures relating to quantitative and qualitative information for amounts, timing, the nature and uncertainty of revenue and cash flows arising from contracts with customers. The application of this guidance did not have an impact on the financial statements.

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

**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,:

| | 2019 | 2018 |
|---|---|---|
| Gross mortgage notes receivable | $ 13,017,613 | $ 12,262,844 |
| Unamortized discount on non-interest bearing mortgage receivables | (6,598,514) | (6,174,342) |
| Net present value | $ 6,419,099 | $ 6,088,502 |

**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,: | |
|---|---|
| 2020 | $ 707,733 |
| 2021 | 693,197 |
| 2022 | 688,270 |
| 2023 | 685,412 |
| 2024 | 678,904 |
| Thereafter | 9,564,097 |
| | $ 13,017,613 |

**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,:

| | 2019 | 2018 |
|---|---|---|
| CCML Leverage I, LLC | $ - | $ 1,604,436 |
| HFH Northeast 1 Leverage Lender, LLC | 1,211,516 | 1,211,516 |
| | $ 1,211,516 | $ 2,815,952 |

Exercise of the put option agreements called for the forgiveness of the Organization's outstanding debt owed to the affiliated investment fund, resulting in a benefit of $289,557 to the Organization for the year ending December 31, 2019, as follows:

| | |
|---|---|
| Forgiveness of debt | $ 1,952,305 |
| Sale of parternship investments | (1,662,728) |
| NMTC gain, net | $ 289,577 |

**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, 2019 and 2018 is $341,483 and $304,902, 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,:

| | 2019 | 2018 |
|---|---|---|
| Building | $ 194,921 | $ 194,921 |
| Furniture and fixtures | 32,127 | 32,127 |
| Equipment | 60,873 | 60,873 |
| Vehicles | 286,174 | 275,779 |
| Leaseholds - ReStore | 40,451 | 34,901 |
| | 614,546 | 598,601 |
| Accumulated depreciation | (514,270) | (472,250) |
| | $ 100,276 | $ 126,351 |

Depreciation expense for the years ended December 31, 2019 and 2018 was $42,020 and $48,049, respectively.

**NOTE 7 – DEFERRED ASSETS**

Deferred assets at December 31, 2019 and 2018 consist of the following:

| | 2019 | 2018 |
|---|---|---|
| Guarantor fees | $ 42,719 | $ 243,852 |
| Closing costs | 51,625 | 94,602 |
| Structure and servicing fee | 25,631 | 25,631 |
| | 119,975 | 364,085 |
| Accumulated amortization | (50,621) | (255,470) |
| | $ 69,354 | $ 108,615 |

Amortization expense for the years ended December 31, 2019 and 2018 was $39,261 and $40,097.

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

| For the years ending December 31,: | |
|---|---|
| 2020 | $ 8,678 |
| 2021 | 2,575 |
| 2022 | 2,575 |
| 2023 | 2,575 |
| 2024 | 2,575 |
| Thereafter | 50,376 |
| | $ 69,354 |

**NOTE 8 – LINES OF CREDIT**

The Organization has two lines of credit of $300,000 with financial institutions, with $-0- drawn on December 31, 2019 and 2018. Both lines of credit are renewable annually, and have interest rates of prime which was 4.75% and 5.50% at December 31, 2019 and 2018, respectively. 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, 2019 and 2018:

| Payable to | Current interest rate | Maturity date | 2019 | 2018 |
|---|---|---|---|---|
| Citizens Bank | 2.00% | November, 2021 | $ 500,000 | $ 500,000 |
| Isuzu Finance of America, Inc. | 6.79% | March, 2022 | 36,666 | 52,380 |
| Habitat for Humanity International - Flex Cap | 4.75% | December, 2026 | 363,299 | 406,076 |
| Mutual Housing Association of Southwestern CT | 0.00% | September, 2045 | 59,429 | 61,143 |
| Connecticut Housing Finance Authority | 0.00% | November, 2041 | 1,784,482 | 1,030,288 |
| Key Bank | 0.00% | December, 2031 | 37,680 | 41,707 |
| Fairfield County Bank Corporation | 0.00% | January, 2034 | 97,277 | 105,781 |
| CCM Community Development XVII, LLC | 0.77% | April, 2028 | - | 1,880,000 |
| Citi NMTC Subsidiary CDE XVI, LLC | 1.03% | December, 2043 | 1,674,570 | 1,674,570 |
| Total notes payable, before discount | | | 4,553,403 | 5,751,945 |
| Discount | | | (679,581) | (362,450) |
| Total notes payable, net present value | | | $ 3,873,822 | $ 5,389,495 |

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

| For the years ending December 31,: | |
|---|---|
| 2020 | 192,516 |
| 2021 | 194,435 |
| 2022 | 692,969 |
| 2023 | 189,666 |
| 2024 | 190,185 |
| Thereafter | 3,093,632 |
| | $ 4,553,403 |

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 $1,104,901 and $667,838 at December 31, 2019 and 2018, 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, 2019, the Organization's contribution is expected to be $48,008. For the year ended December 31, 2018, the Organization's contribution was $51,399.

**NOTE 11 – NET ASSETS WITH DONOR RESTRICTIONS**

Net assets of $504,482 and $1,706,136 as of December 31, 2019 and 2018, respectively were restricted by donors for the purpose of housing construction. Net assets with donor restrictions of $1,201,654 and $119,509 as of December 31, 2019 and 2018, 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 used the 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,: | |
|---|---|
| 2020 | $ 510,388 |
| 2021 | 506,842 |
| 2022 | 514,319 |
| 2023 | 474,739 |
| 2024 | 337,805 |
| Thereafter | 227,305 |
| | $ 2,571,398 |

**NOTE 13 – LIQUIDITY**

The Organization's financial assets available within one year of the balance sheet date for general expenditure are, as follows for December 31,:

| | 2019 | 2018 |
|---|---|---|
| Cash and cash equivalents | $ 836,136 | $ 516,582 |
| Grants and other receivable | 166,282 | 37,004 |
| Mortgage notes receivable, current portion | 707,733 | 653,375 |
| Financial assets available to meet cash needs for general expenditures within one year | $ 1,710,151 | $ 1,206,961 |

**NOTE 13 – LIQUIDITY** *(CONTINUED)*

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, 2019 and 2018 the Organization had $8,580,000 and $9,445,236 in unpledged, undiscounted mortgage receivables.

**NOTE 14 – SUBSEQUENT EVENTS**

The Organization monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for fiscal year ended December 31, 2019 through March 26, 2020, the date on which the financial statements were available to be issued. No subsequent events were noted that resulted in adjustments to the financial statements or changes in footnote disclosures.

In March 2020, the World Health Organization declared the outbreak of a novel coronavirus (COVID-19) as a pandemic. COVID-19 has caused significant disruption in the national and global economy. The Organization is expecting its operations, liquidity, cash flows, and forecasts to be adversely affected by this global pandemic. Through the report date the Organization has closed its Restore location to the public and ceased receiving physical donations to the Restore. The Organization has cancelled its annual springtime benefit and has postponed another fundraising event. Volunteer build days scheduled for the early Spring are being postponed to future dates. This may cause a delay in the completion of homes and donations received. The Organization may experience an increase in delinquencies due to its homeowners coming under increased financial strain. In response to the operational challenges noted above, the Organization has drawn $300,000 on one of their lines of credit to increase their liquidity. While the disruption is currently expected to be temporary, there is uncertainty related to the duration. Therefore, while the Organization expects this matter to negatively impact the business, the related financial impact cannot be reasonably estimated at this time.

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