HARTFORD AREA HABITAT FOR HUMANITY, INC.

June 30, 2018

Independent Auditors' Report
Consolidated Financial Statements

HARTFORD AREA HABITAT FOR HUMANITY, INC.

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I. CONSOLIDATED FINANCIAL STATEMENTS

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Hartford Area Habitat for Humanity, Inc.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Hartford Area Habitat for Humanity, Inc. (a nonprofit organization), which comprise the consolidated statement of financial position as of June 30, 2018, and the related consolidated statements of activities and changes in net assets, cash flows and functional expenses 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 consolidated 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 consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 auditors' 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 consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Hartford Area Habitat for Humanity, Inc. as of June 30, 2018, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Emphasis of Matter, Restated Prior Year's Financial Statements

As described in Note 15, subsequent to the issuance of Hartford Area Habitat for Humanity, Inc.'s 2017 financial statements, we became aware that the 2017 financial statements reflected incorrect imputed interest on mortgage receivables and net assets. In our original report we issued an unmodified opinion, and our opinion on the restated financial statements remains unmodified.

Report on Summarized Comparative Information

We have previously audited Hartford Area Habitat for Humanity, Inc.'s 2017 financial statements, and our report dated November 9, 2017, expressed an unmodified opinion on those audited financial statements. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2017, is consistent, in all material respects, with the audited financial statements from which it has been derived.

Other Matters

Our audit was conducted for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedule of state financial assistance, as required by the State Single Audit Act, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the financial statements taken as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated February 4, 2019 on our consideration Hartford Area Habitat for Humanity, Inc.'s internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Hartford Area Habitat for Humanity, Inc.'s 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 Hartford Area Habitat for Humanity, Inc.'s internal control over financial reporting and compliance.

Whittlesey PC

Hartford, Connecticut
February 4, 2019

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Consolidated Statements of Financial Position

June 30, 2018 and 2017

	2018	2017
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,069,610	$ 1,292,429
Restricted cash	268,830	219,336
Grants and other receivables	453,093	424,214
Current portion of mortgage notes receivable	851,596	772,178
Inventory	355,399	1,299,481
Prepaid expenses	18,364	15,150
Total current assets	3,016,892	4,022,788
Property and equipment:		
Land, building and improvements	479,365	460,290
Furniture, fixtures and equipment	1,092,546	1,089,421
Less: accumulated depreciation	(737,069)	(622,567)
Total property and equipment	834,842	927,144
Other assets:		
Mortgage notes receivable, net of mortgage discount	6,052,454	5,542,499
Other real estate owned	242,656	495,164
Deposits and escrows	2,516	2,516
Deferred assets (net of amortization)	98,241	165,350
Investments in partnerships	3,734,538	3,681,144
Total other assets	10,130,405	9,886,673
Total assets	$ 13,982,139	$ 14,836,605
LIABILITIES AND NET ASSETS		
Current liabilities:		
Current portion of long-term debt	166,218	178,918
Accounts payable and accrued expenses	218,030	380,407
Advance payments and down payments	39,678	87,893
Total current liabilities	423,926	647,218
Long-term debt, net of current portion and CHFA mortgage discount of $72,095 and $84,898, respectively	1,174,357	1,313,364
Long-term debt - other	4,431,620	4,431,620
Total liabilities	6,029,903	6,392,202
Net assets:		
Unrestricted	7,545,185	8,019,987
Temporarily restricted	407,051	424,416
Total net assets	7,952,236	8,444,403
Total liabilities and net assets	$ 13,982,139	$ 14,836,605

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Consolidated Statement of Activities and Changes in Net Assets

For the year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

	Unrestricted	Temporarily Restricted	2018 Total	2017 Total
Revenue and other support:				
Property transferred to homeowners	$ 1,821,192	$ -	$ 1,821,192	$ 1,535,565
Contributions	394,767	1,374,920	1,769,687	1,037,036
Grants	812,614	-	812,614	1,196,897
Imputed interest on mortgage receivables	437,471	-	437,471	416,348
ReStore income	931,837	-	931,837	839,902
Other income	14,305	-	14,305	21,024
Interest income	89,011	-	89,011	89,161
Gain on sale of mortgages	-	-	-	67,334
Satisfaction of program restrictions	1,392,285	(1,392,285)	-	-
Total revenue and other support	5,893,482	(17,365)	5,876,117	5,203,267
Expenses:				
Program services	5,007,825	-	5,007,825	4,031,088
ReStore	830,161	-	830,161	781,190
General and administrative	273,812	-	273,812	271,735
Fundraising	256,486	-	256,486	220,180
Total expenses	6,368,284	-	6,368,284	5,304,193
Change in net assets	(474,802)	(17,365)	(492,167)	(100,926)
Net assets - beginning of year	8,019,987	424,416	8,444,403	8,545,329
Net assets - end of year	$ 7,545,185	$ 407,051	$ 7,952,236	$ 8,444,403

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Consolidated Statements of Cash Flows

For the years ended June 30, 2018 and 2017

	2018	2017
Cash flows from operating activities:		
Change in net assets	$ (492,167)	$ (100,926)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	114,502	106,577
Amortization	27,044	27,043
Imputed interest on mortgage receivables	(437,471)	(416,348)
Mortgage discount	941,180	839,642
Loss on impairment	113,048	400,000
CHFA mortgage discount	12,803	14,690
Gain on sale of mortgage	-	(67,334)
Changes in assets - (increase)/decrease:		
Inventory	831,034	(279,965)
Prepaid expenses	(3,214)	1,490
Grants and other receivables	(28,879)	955,871
Other real estate owned	252,508	(260,234)
Changes in liabilities - increase/(decrease):		
Accounts payable and accrued expenses	(162,378)	102,541
Advance payments and down payments	(48,215)	(69,798)
Net change in cash from operating activities	1,119,795	1,253,249
Cash flows from investing activities:		
New loans originated	(2,486,239)	(1,535,565)
Loan payments	845,658	816,371
Proceeds from sale of recycled homes	547,500	388,730
Purchase of land, buildings and equipment	(22,200)	(233,250)
Deferred assets	40,065	40,067
Investments in partnerships	(53,394)	(53,399)
Net change in cash from investing activities	(1,128,610)	(577,046)
Cash flows from financing activities:		
Proceeds from notes payable	52,723	43,890
Payments on notes payable	(217,233)	(389,488)
Net change in cash from financing activities	(164,510)	(345,598)
Change in cash and cash equivalents	(173,325)	330,605
Cash and cash equivalents - beginning of year	1,511,765	1,181,160
Cash and cash equivalents - end of year	$ 1,338,440	$ 1,511,765
Supplementary information		
Interest paid	$ 89,142	$ 97,337
Noncash investing activity:		
Mortgage discount	$ 941,180	$ 839,642

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

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Consolidated Statement of Functional Expenses

For the year ended June 30, 2018
(with comparative totals for the year ended June 30, 2017)

	Program Services	ReStore	Management and General	Fundraising	2018 Total	2017 Total
Cost of homes sold	$ 2,784,779	$ -	$ -	$ -	$ 2,784,779	$ 1,672,493
Other expenses:						
Salaries	414,108	297,175	152,843	173,824	1,037,951	1,003,565
Payroll taxes and fringe benefits	122,759	85,891	33,218	37,776	279,645	242,310
Other program service costs	77,958	-	-	-	77,958	134,554
Moving and storage	-	133,236	-	-	133,236	133,492
Occupancy expenses	22,204	88,515	6,166	2,465	119,351	126,376
Interest	55,284	12,359	15,356	6,142	89,142	97,337
Office administration	53,148	14,125	14,764	5,906	87,943	83,958
Insurance	28,657	19,568	7,960	3,185	59,370	63,539
Tithe and donations to affiliates	39,317	-	-	-	39,317	50,127
Subcontractors	2,000	-	-	-	2,000	50,019
Utilities and telephone	11,445	31,766	3,179	1,271	47,661	40,642
Miscellaneous	78,997	29,077	5,156	11,883	125,111	35,479
Special events	42,989	-	11,941	4,777	59,707	35,214
Advertising	26,340	6,904	7,317	2,926	43,487	33,939
Office repairs and maintenance	18,046	20,919	5,014	2,005	45,984	30,620
Professional fees	20,710	-	5,753	2,301	28,764	31,219
Warranty costs	19,725	-	-	-	19,725	25,974
Training and staff development	5,589	4,190	1,643	625	12,047	24,084
Bad debt expense	51,458	-	-	-	51,458	-
Auto and travel	12,601	10,372	3,501	1,400	27,873	15,989
Total other expenses	1,103,336	754,097	273,812	256,486	2,387,730	2,258,438
Total expenses before mortgage discount, loss on impairment and depreciation	3,888,115	754,097	273,812	256,486	5,172,510	3,930,931
Mortgage discount	941,180	-	-	-	941,180	839,642
Loss on impairment	113,048	-	-	-	113,048	400,000
Depreciation/amortization	65,482	76,064	-	-	141,546	133,620
Total expenses	$ 5,007,825	$ 830,161	$ 273,812	$ 256,486	$ 6,368,284	$ 5,304,193

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

NOTE 1 - ORGANIZATION ACTIVITY

Hartford Area Habitat for Humanity, Inc. (“HAHFH”), a non-profit organization, non-stock corporation organized under Connecticut law in 1988, is located in Hartford, Connecticut. HAHFH, affiliated with Habitat for Humanity International (“HFHI”) based in Americus, Georgia, builds homes for low-income individuals in the Hartford area. Purchasers, who have been approved and selected by HAHFH, volunteer their labor in partnership with HAHFH to build the house. The house is then sold to the individual at a predetermined cost which is reviewed annually by the HAHFH. Upon sale, HAHFH takes back a non-interest bearing mortgage for approximately 99% of the sales price. These mortgages are usually long term, ranging from twenty to thirty years.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This summary of significant accounting policies of Hartford Area Habitat for Humanity, Inc. is presented to assist in understanding HAHFH’s financial statements. The financial statements and accompanying notes are representations of HAHFH’s management who is responsible for the integrity and objectivity of the financial statements. These accounting policies conform to generally accepted accounting principles and have been consistently applied in the preparation of the financial statements.

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

Basis of Presentation - Financial statement presentation follows *Financial Statement of Not-for-Profit Organization* topic of the Financial Accounting Standards Board (“ASC”). Under this topic, HAHFH reports information regarding it financial position and activities according to three classes of net assets: unrestricted net assets, temporarily restricted net assets and permanently restricted net assets.

> Unrestricted Net Assets - Net assets that are not subject to donor-imposed stipulations. HAHFH treats all support that is restricted by the donor as unrestricted support when the receipt of the support and the expiration of the restriction occur in the same period.
>
> Temporarily Restricted Net Assets - Net assets subject to donor-imposed stipulations that may or will be met, with actions of HAHFH and/or the passage of time. When a restriction expires, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions.
>
> Permanently Restricted Net Assets - Net assets that are subject to the restriction of gifts instruments, requiring in perpetuity that the principal be invested and income only, some of which is restricted for specific purposes, be utilized. HAHFH did not have any permanently restricted net assets at June 30, 2018 and 2017.

Cash and Cash Equivalents - HAHFH considers cash on deposit with financial institutions, money market funds, and other investments with an original maturity of three months or less to be cash equivalents. HAHFH maintains its cash in bank accounts, which, at times, may exceed federally insured limits. HAHFH has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash and cash equivalents.

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

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 account as of June 30, 2018 and 2017.

Mortgages Receivable - Mortgages receivable consist of non-interest bearing loans which are secured by the real estate and payable in monthly installments over the life of the mortgage.

Inventory - Inventory on properties constructed for sale is valued using specific identification.

Property and Equipment - All acquisitions or donations of property and equipment are recorded at cost or their fair market value at the date of the gift. Depreciation is provided for over the estimated useful lives of the assets on a straight-line basis. The respective estimated useful lives are five to thirty-nine years. HAHFH follows the practice of capitalizing all expenditures for property and equipment in excess of $1,000.

Other Real Estate Owned - Other real estate owned is carried at the lower of fair value or acquisition cost.

Investments in Partnerships - HAHFH invested, along with several other Habitat affiliates, in two separate joint ventures named HFHI-SA Leverage IX, LLC and CCML Leverage I, LLC to take advantage of new market tax credit ("NMTC") financing. The investments in the joint ventures are recorded at fair market value using the cost approach. Any changes in market value are reported in the consolidated statement of activities and changes in net assets as investment income or loss.

Contributions - Contributions, including unconditional promises to give, are recognized as revenue in the period received. All contributions are available for unrestricted use unless specifically restricted by the donor. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Unconditional promises to give that are due in subsequent years are reported at the present value of their net realizable value, using risk-free interest rates applicable to the years in which the promises are to be received.

Donated Materials and Services - Donated property, including building materials, is recorded as a contribution at a discounted retail value when received. HAHFH receives donated services from a variety of unpaid volunteers who assist in building the houses. No amounts have been recognized in the accompanying statement of activities for these services because the criteria for recognition of such volunteer efforts under the Not-for-Profit Entities topic of the FASB Accounting Standards Codification (FASB ASC 958) have not been satisfied.

HAHFH reports gifts of buildings and equipment as unrestricted support at their estimated fair value at the date of donation. Such donations are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent explicit donor stipulations about how long those donated assets must be maintained, HAHFH reports expirations of donor restrictions when the donated or acquired assets are placed in service. HAHFH reclassifies temporarily restricted net assets to unrestricted net assets at that time.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(CONTINUED)*

In-kind contributions consist of air conditioner units donated by Carrier Corporation and discounts on services provided by various contractors. The total amount of in-kind contributions recognized for the years ended June 30, 2018 and 2017, was $129,283 and $117,702, respectively.

Tax Status - HAHFH is a not-for-profit organization as described under Section 501(c)(3) of the Internal Revenue Code and is not subject to federal or state income taxes. In addition, HAHFH qualifies for the charitable contribution deduction as provided in Section 170 of the Internal Revenue Code.

Use of Estimates - The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

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

Comparative Totals - The 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 HAHFH's financial statements for the year ended June 30, 2017, from which the summarized information was derived.

Subsequent Events Measurement Date - HAHFH monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for fiscal year 2018 through February 4, 2019, the date on which the financial statements were available to be issued.

NOTE 3 - INVENTORY

The residential units in inventory consist of the following as of June 30:

	2018	2017
Construction in progress and completed units that are unoccupied	$ 219,339	$ 574,653
Land	14,714	298,753
Construction in progress relating to NMTC #1	95,553	400
Land - NMTC #1	2,211	2,211
Construction in progress relating to NMTC #2	-	400
Land - NMTC #2	-	423,064
ReStore Purchased Inventory	23,582	-
Total inventory	$ 355,399	$ 1,299,481

NOTE 4 - OTHER REAL ESTATE OWNED

Other real estate owned is comprised of foreclosed and first right of refusal ("FROF") homes. Properties are foreclosed upon after the homeowner has become seriously delinquent in their loan payments and all attempts to work with the homeowner have failed. For the FROF homes, Habitat maintains a FROF to repurchase any Habitat home that is proposed to be sold by a Habitat homeowner during the term of the mortgage. Other real estate owned totaled $242,656 and $495,164 as of June 30, 2018 and 2017, respectively.

NOTE 5 - INVESTMENTS IN PARTNERSHIPS

During November 2011 and April 2012, HAHFH participated in two NMTC programs. The programs provided 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 November 2011, HAHFH invested, along with several other Habitat affiliates, in a joint venture named HFHI-SA Leverage IX, LLC to take advantage of the NMTC financing. As a result, HAHFH initially invested $1,931,719 (combination of cash and work-in-process inventory) and was able to secure a 16-year loan in the amount of $2,551,620 payable to the sub-CDE named HFHI-SA NMTC VI, 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 November 15, 2019 at 0.75%. Commencing November 15, 2019, semi-annual principal payments are due through the maturity date of November 13, 2027. In April 2012, HAHFH invested, along with several other Habitat affiliates, in a joint venture named CCML Leverage I, LLC to take advantage of the NMTC financing. As a result, HAHFH 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, 2019 at 0.77%. Commencing May 5, 2020, semi-annual principal payments are due through the maturity date of April 11, 2028. The loans are secured by substantially all the assets acquired by HAHFH from the projects loan proceeds. The loans have a put feature option that is exercisable in November 2018 and May 2019, 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 HAHFH, as long as compliance requirements are met.

Exercise of this option will effectively allow HAHFH to extinguish its outstanding debt owed to the affiliated investment fund.

The investments are recorded at market value as follows at June 30, 2018 and 2017:

	2018	2017
HFHI-SA NMTC VI, LLC	$ 2,134,432	$ 2,104,188
CCM Community Development XVII, LLC	1,600,106	1,576,956
	$ 3,734,538	$ 3,681,144

NOTE 6 - MORTGAGE NOTES RECEIVABLE

Mortgage notes receivable represent non-interest bearing amounts due from individuals who have purchased homes constructed by HAHFH. These amounts are to be paid over terms ranging from twenty to thirty years as follows:

	2018	2017
Mortgage notes receivable	$ 13,711,794	$ 12,562,656
Less: unamortized discount on non-interest bearing mortgage notes receivable	(6,807,744)	(6,247,979)
	6,904,050	6,314,677
Less: current portion	(851,596)	(772,178)
	$ 6,052,454	$ 5,542,499

NOTE 6 - 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 (at an imputed interest rate ranging from (7.57% to 7.47%) is $6,904,050 and $6,624,545 at June 30, 2018 and 2017, respectively. The servicing of these mortgages is performed by a bank. The scheduled estimated maturities of these notes are approximately:

Year ended June 30,	
2019	$ 851,596
2020	851,596
2021	851,596
2022	851,596
2023	851,596
Thereafter	2,646,070
	$ 6,904,050

HAHFH sells homes based on its predetermined cost, which is reviewed annually by the Affiliate, and concurrently, HAHFH also holds a second and third mortgage on the difference between the fair market value and the selling price. The purpose of the second and third mortgage is to insure that the purchaser retains possession of the property for a given period of time and does not sell to personally benefit from the difference between the purchased price and the fair market value. The second and third mortgages are forgiven ratably between six and thirty years after the purchase of the homes. If the homeowner sells prior to the time period of the second and/or third mortgage being ratably forgiven, the balance of the mortgage will be repaid from the sales price. It is anticipated that none of these mortgages will be required to be repaid. As a result, these mortgages have not been recorded in the financial statements as of June 30, 2018 and 2017, respectively.

NOTE 7 - DEPOSITS AND ESCROWS

Deposits consist of down payments on home purchases and escrows consist of loan payments on AAR Program Notes paid in advance. Down payments represent funds received from families before they move in as a commitment to purchase a house. In the event a family decides not to purchase the home, the down payment will be returned to the individuals and the occupancy payments will be considered rent to HAHFH according to a use and occupancy agreement. HAHFH borrows funds from HFHI's Accelerated Asset Recovery (AAR) Program. As a condition of the program, HFHI reduces the amount of funds lent to HAHFH by one scheduled loan payment.

NOTE 8 - LONG-TERM DEBT

Long-term debt consists of the following as of June 30:

	Maturity Date	Interest Rate	Outstanding Balance June 30, 2018	Outstanding Balance June 30, 2017
Habitat for Humanity International				
SHOP/HUD Notes	12/31/2017	0.000%	$ -	$ 948
	6/30/2018	0.000%	-	-
	6/30/2018	0.000%	-	4,710
	12/31/2018	0.000%	-	960
	12/31/2019	0.000%	12,660	21,096
	12/31/2020	0.000%	3,128	4,376
	12/31/2020	0.000%	3,398	4,742
	12/31/2020	0.000%	2,346	3,282
	12/31/2020	0.000%	5,474	7,658
	6/30/2020	0.000%	8,764	13,132
	6/30/2020	0.000%	3,282	3,750
	6/30/2020	0.000%	2,675	3,563
	6/30/2020	0.000%	6,237	7,125
	6/30/2020	0.000%	14,750	14,750
	6/30/2020	0.000%	26,250	22,640
	6/30/2020	0.000%	18,598	21,250
	12/31/2020	0.000%	620	859
	6/30/2021	0.000%	2,675	3,563
	6/30/2021	0.000%	2,675	3,563
	12/31/2023	0.000%	7,333	-
	12/31/2023	0.000%	3,667	-
	12/31/2023	0.000%	723	-
			125,254	141,967
Windsor Federal Savings	6/1/2019	4.080%	9,750	19,887
	1/1/2023	4.000%	21,108	25,354
	8/1/2024	4.000%	20,229	23,112
	2/1/2025	2.875%	369,981	415,773
	2/1/2031	4.000%	51,424	54,512
	4/1/2031	4.000%	102,477	108,549
	12/1/2031	4.000%	51,274	54,351
	4/1/2032	4.000%	119,070	125,379
	7/1/2032	4.000%	124,712	131,374
			870,026	958,291
Key Bank	4/24/2027	6.000%	$ 106,231	$ 115,060
Connecticut Housing Finance Authority	2/1/2018	0.000%	-	2,481
(CHFA)	4/1/2019	0.000%	1,956	4,769
	10/1/2019	0.000%	2,501	4,579
	11/1/2019	0.000%	-	4,772
	6/1/2023	0.000%	10,441	12,325
	12/1/2023	0.000%	17,199	20,044
	8/1/2024	0.000%	13,003	14,843
	10/1/2024	0.000%	11,699	13,278
	5/1/2026	0.000%	17,261	19,033
	12/1/2030	0.000%	29,876	31,583
	11/1/2031	0.000%	35,786	37,641
	8/1/2032	0.000%	39,130	41,048
	10/1/2033	0.000%	42,079	43,884
			220,932	250,280
Toyota Financial Services	6/1/2020	3.900%	$ 18,133	$ 26,684
Total			1,340,575	1,492,282
Less: Current portion			(166,218)	(178,918)
			$ 1,174,357	$ 1,313,364

NOTE 8 - LONG-TERM DEBT *(CONTINUED)*

As the above referred CHFA notes are non-interest bearing, and are for the purpose of providing the funds needed for home construction, 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 5.00%) is $72,095 and $84,898 at June 30, 2018 and 2017, respectively.

The Windsor Federal Savings note due June 1, 2019 is secured by the building. All other notes, except for the Habitat for Humanity International SHOP/HUD notes, and the Windsor Federal Savings note for ReStore, are secured by certain pledged mortgage receivable payments.

The expected maturities of long-term debt are as follows:

Year ended June 30,		
2019	$	166,218
2020		163,174
2021		163,263
2022		157,453
2023		143,778
Thereafter		546,689
	$	1,340,575

HAHFH received funding through HFHI from HUD to complete new properties. The total of the awards received during the years ending June 30, 2018 and 2017 is approximately $61,000 and $192,000. These awards are considered 75% grants and 25% noninterest bearing loans to be repaid to HFHI over a four-year period.

HAHFH received funding through HFHI from Accelerated Asset Recovery Program (AAR). Under the AAR program, affiliates pledge mortgages in exchange for a lump sum payment equal to approximately the sum of seven years' worth of payments on the mortgages. Over seven years, the actual monthly payments from the pledged mortgages are then used to repay the money advanced to the affiliate. The affiliate must also pay interest on this amount at interest rates between 3.25% and 4.00%. There were no funds received during the years ended June 30, 2018 and 2017.

HAHFH is participating in two separate NMTC programs, and has taken on long term debt with HFHI-SA Leverage IX, LLC and CCM Community Development VXII, LLC, the qualified community development entities for each program. The long term debt associated with these projects consists of the following at June 30, 2018 and 2017:

	Maturity	Rate	2018	2017
HFHI-SA NMTC VI, LLC	11/15/2027	0.750%	$ 2,551,620	$ 2,551,620
CCM Community Development XVII, LLC	5/5/2028	0.770%	1,880,000	1,880,000
Total			$ 4,431,620	4,431,620

HAHFH received financing from Windsor Federal Savings, the note is secured by a savings account held at Windsor Federal Savings with the approximate balance of $262,500 at the time the note was signed, including any accrued interest on the account and all additional future deposits to the account.

NOTE 9 - TEMPORARILY RESTRICTED NET ASSETS

Temporarily restricted net assets were subject to the following purpose restrictions as June 30:

	2018	2017
Housing construction	$ 389,154	$ 406,519
Education	17,897	17,897
Total temporarily restricted net assets	$ 407,051	$ 424,416

Temporarily restricted net assets were released for the following purpose during the years ended June 30:

	2018	2017
Housing construction	$ 1,392,285	$ 699,024
Total temporarily restricted net assets released	$ 1,392,285	$ 699,024

NOTE 10 - FUNCTIONAL EXPENSES

Expenses are charged to programs based on direct expense incurred. Any program expenses not directly chargeable are allocated to programs based on direct program employee wages to total employee wages. The expenses are allocated between program and support services.

NOTE 11 - PENSION PLAN

HAHFH provides a 401(k) plan for its employees. Eligible participants can contribute up to 20% of their total compensation up to the IRS maximum. HAHFH contributes an amount equal to 2% of cash salary and will match 100% of the employee's contribution up to 2% of the employee's compensation at the plan year end. For the years ended June 30, 2018 and 2017, HAHFH’s contributions totaled $11,739 and $13,857, respectively.

NOTE 12 - LEASES

HAHFH leases buildings under various operating lease agreements expiring in various years through September, 2024. Rent expense for the years ended June 30, 2018 and 2017 totaled $77,086 and $78,711, respectively. Minimum future rental payments under operating leases having remaining terms in excess of one year are as follows:

For the years ended June 30:	
2019	$ 74,186
2020	74,186
2021	44,000
2022	44,000
2023	44,000
Thereafter	11,000

NOTE 13 - COMMITMENTS AND CONTINGENCIES

HAHFH is from time to time subject to legal proceedings and claims that arise in the ordinary course of business. In the opinion of management, the amount of ultimate liability with respect to these actions will not materially affect the financial position of HAHFH.

NOTE 14 - LOSS ON IMPAIRMENT

In 2018, HAHFH determined that certain other real estate owned have been impaired. In 2017, HAHFH determined that certain homes under construction (included in inventory) were impaired. Therefore, HAHFH was required to make a fair value determination. This fair value determination was based on purchase and sales agreements for other real estate owned and previous sales by HAHFH of homes in the area for homes under construction. HAHFH recorded an impairment adjustment of $113,048 and $400,000 during the years ended June 30, 2018 and 2017, respectively, which is reflected in the statement of functional expenses.

NOTE 15 - PRIOR PERIOD ADJUSTMENT

Imputed interest on mortgages receivable decreased and net assets decreased by $309,868 to correct the amount recorded in imputed interest on mortgages receivable as of December 31, 2017.

NOTE 16 - NEIGHBORHOOD ASSISTANCE ACT FUNDING

HAHFH received Neighborhood Assistance Act program funding for its Energy Conservation Program. During the years ended June 30, 2018 and June 30, 2017, HAHFH was awarded $ 60,346 and $89,588 in project funding and expended $60,346 and $89,588, respectively, in accordance with the Program.

II. State Single Audit Reports

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INDEPENDENT AUDITORS' 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 of
Hartford Area Habitat for Humanity, Inc.

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 Hartford Area Habitat for Humanity, Inc., which comprise the statement of financial position as of June 30, 2018 and the related statements of activities and changes in net assets, cash flows and functional expenses for the year then ended, and the related notes to the financial statements, and have issued a report thereon dated February 4, 2019.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered Hartford Area Habitat for Humanity, 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 opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Hartford Area Habitat for Humanity, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness Hartford Area Habitat for Humanity, 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 Hartford Area Habitat for Humanity, Inc.'s financial statements will not be prevented, or detected and corrected, on a timely basis. A significant deficiency is a deficiency, or 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 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 Hartford Area Habitat for Humanity, Inc.'s financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, 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 result of that testing, and not to provide an opinion on the effectiveness of Hartford Area Habitat for Humanity, Inc.'s internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Hartford Area Habitat for Humanity, Inc.'s internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Whittlesey PC

Hartford, Connecticut
February 4, 2019

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INDEPENDENT AUDITORS' REPORT ON COMPLIANCE FOR EACH MAJOR STATE PROGRAM AND REPORT ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE STATE SINGLE AUDIT ACT

To the Board of Directors of
Hartford Area Habitat for Humanity, Inc.

Report on Compliance for Each Major State Program

We have audited Hartford Area Habitat for Humanity, Inc.'s compliance with the types of compliance requirements described in the Office of Policy and Management's *Compliance Supplement* that could have a direct and material effect on each of Hartford Area Habitat for Humanity, Inc.'s major state programs for the year ended June 30, 2018. Hartford Area Habitat for Humanity, Inc.'s major state program is identified in the summary of auditors' results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts and grants applicable its state programs.

Auditors' Responsibility

Our responsibility is to express an opinion on compliance for Hartford Area Habitat for Humanity, Inc.'s major state program based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the State Single Audit Act (C.G.S. Sections 4-230 to 4-236). Those standards and the State Single Audit Act require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major state program occurred. An audit includes examining, on a test basis, evidence about Hartford Area Habitat for Humanity, Inc.'s compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for the major state program. However, our audit does not provide a legal determination of Hartford Area Habitat for Humanity, Inc.'s compliance.

Opinion on Each Major State Program

In our opinion, Hartford Area Habitat for Humanity, Inc., complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on its major state program for the year ended June 30, 2018.

Report on Internal Control over Compliance

Management of Hartford Area Habitat for Humanity, Inc. is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Hartford Area Habitat for Humanity, Inc.'s internal control over compliance with the types of requirements that could have a direct and material effect on the major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for the major state program and to test and report on internal control over compliance in accordance with the State Single Audit Act, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the Hartford Area Habitat for Humanity, Inc.'s internal control over compliance.

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

Our consideration of internal control over compliance 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 compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of the State Single Audit Act. Accordingly, this report is not suitable for any other purpose.

Whittlesey PC

Hartford, Connecticut
February 4, 2019

HARTFORD AREA HABITAT FOR HUMANITY, INC.

Schedule of Expenditures of State Financial Assistance

For the year ended June 30, 2018

State Grantor/Pass-through Grantor Program Tittle	State Grant Program Core-CT Number	Expenditures
State of Connecticut		
Department of Housing		
Affordable Housing (FLEXIBLE Program)	12064-DOH46920-40238-150	$ 402,815
Total Expenditures of State Financial Assistance		$ 402,815

See accompanying note to Schedule of Expenditures State Financial Assistance.

Note to Schedule of Expenditures of State Financial Awards

For the year ended June 30, 2018

The accompanying schedule of expenditures of state financial assistance (the "Schedule") includes state grant activity of the Hartford Area Habitat for Humanity, Inc. under programs of the State of Connecticut for the fiscal year ended June 30, 2018. Various departments and agencies of the State of Connecticut have provided financial assistance to the Hartford Area Habitat for Humanity, Inc. through grants and other authorizations in accordance with the General Statutes of the State of Connecticut. These financial assistance programs fund several programs.

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

The accounting policies of Hartford Area Habitat for Humanity, Inc. conform to accounting principles generally accepted in the United States of America as applicable to not-for-profit agencies.

The information in the Schedule is presented based upon regulations established by the State of Connecticut, Office of Policy and Management.

Basis of Accounting

The expenditures reported on the Schedule are reported on the accrual basis of accounting. In accordance with these regulations (Section 4-236-22) of the Regulations to the State Single Audit Act, certain grants are not dependent on expenditure activity, and accordingly, are considered to be expended in the fiscal year of receipt. These grant program receipts are reflected in the expenditures column of the Schedule.

I. SUMMARY OF AUDITORS' RESULTS

Financial Statements

Type of auditors' report issued:	*Unmodified*	
Internal control over financial reporting:		
Material weakness(es) identified?	______ yes	X no
Significant deficiency(ies) identified?	______ yes	X none reported
Noncompliance material to the financial statements noted?	______ yes	X no

State Financial Assistance

Internal control over major programs:		
Material weakness(es) identified?	______ yes	X no
Significant deficiency(ies) identified?	______ yes	X none reported
Type of auditors' reports issued on compliance for major programs:	*Unmodified*	
Any audit findings disclosed that are required to be reported in accordance with Section 4-236-24 of the Regulations to the State Single Audit Act?	______ yes	X no

- The following schedule reflects the major program included in the audit:

State Grantor and Program	State Core-CT Number	Expenditures
Affordable Housing (FLEXIBLE Program)	12064-DOH46920-40238-150	$ 402,815

- Dollar Threshold used to distinguish Between Type A and Type B program: $100,000

II. FINANCIAL STATEMENTS FINDINGS

No matters were reported.

III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS

No matters were reported.