

**HARTFORD AREA HABITAT FOR HUMANITY, INC.**

**June 30, 2016 and 2015**

- I. Consolidated Financial Statements**
- II. State Single Audit Reports**

# HARTFORD AREA HABITAT FOR HUMANITY, INC.

## Table of Contents

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### Page

#### **I. CONSOLIDATED FINANCIAL STATEMENTS**

Independent Auditors' Report.....	1 - 2
Consolidated Statements of Financial Position.....	3
Consolidated Statements of Activities and Changes in Net Assets.....	4
Consolidated Statements of Cash Flows .....	5
Consolidated Statements of Functional Expenses.....	6
Notes to the Consolidated Financial Statements.....	7 - 14

#### **II. STATE SINGLE AUDIT REPORTS**

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 <i>Government Auditing Standards</i> .....	15 - 16
Independent Auditors' Report on Compliance for Each Major State Program and on Internal Control over Compliance required by the State Single Audit Act .....	17 - 18
Schedule of Expenditures of State Financial Assistance .....	19
Note to Schedule of Expenditures of State Financial Assistance .....	20
Schedule of Findings and Questioned Costs .....	21 - 22



## 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, 2016, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

### **Management's Responsibility for the Financial Statements**

Management is responsible for the preparation and fair presentation of these 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.

### **Auditor's 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 of 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, 2016, 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.

## **Report on Summarized Comparative Information**


We have previously audited Hartford Area Habitat for Humanity, Inc.'s 2015 financial statements, and our report dated November 9, 2015, 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, 2015, 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, are presented for purposes of additional analysis and are 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 December 2, 2016, 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 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.



Hartford, Connecticut  
December 2, 2016

**I. CONSOLIDATED FINANCIAL STATEMENTS**

**HARTFORD AREA HABITAT FOR HUMANITY, INC.****Consolidated Statements of Financial Position**

June 30, 2016 and 2015

	2016	2015
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 931,934	\$ 1,010,242
Restricted cash	249,226	305,580
Grants and other receivables	1,380,085	732,357
Current portion of mortgage notes receivable	712,665	650,465
Inventory	1,419,516	1,903,676
Prepaid expenses	16,640	14,530
Total current assets	<u>4,710,066</u>	<u>4,616,850</u>
Property and equipment:		
Land, building and improvements	262,090	219,145
Furniture, fixtures and equipment	1,054,371	1,022,019
Less: accumulated depreciation	<u>(515,990)</u>	<u>(407,865)</u>
Total property and equipment	<u>800,471</u>	<u>833,299</u>
Other assets:		
Mortgage notes receivable, net of mortgage discount of \$6,416,037 and \$5,846,094, respectively	5,627,508	5,138,209
Other real estate owned	234,930	217,213
Deposits and escrows	2,516	-
Deferred assets (net of amortization)	232,460	299,569
Investments in partnerships	3,627,745	3,574,349
Total other assets	<u>9,725,159</u>	<u>9,229,340</u>
Total assets	<u>\$ 15,235,696</u>	<u>\$ 14,679,489</u>
<b>LIABILITIES AND NET ASSETS</b>		
Current liabilities:		
Current portion of long-term debt	\$ 175,583	\$ 132,767
Accounts payable and accrued expenses	277,866	184,648
Advance payments and downpayments	157,691	156,000
Total current liabilities	<u>611,140</u>	<u>473,415</u>
Long-term debt, net of current portion and CHFA mortgage discount of \$99,588 and \$114,559, respectively	1,472,607	1,654,428
Long-term debt - other	4,431,620	4,431,620
Total liabilities	<u>6,515,367</u>	<u>6,559,463</u>
Net assets:		
Unrestricted	8,121,975	7,892,738
Temporarily restricted	598,354	227,288
Total net assets	<u>8,720,329</u>	<u>8,120,026</u>
Total liabilities and net assets	<u>\$ 15,235,696</u>	<u>\$ 14,679,489</u>

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, 2016  
(with comparative totals for the year ended June 30, 2015)

	Unrestricted	Temporarily Restricted	2016 Total	2015 Total
<b>Revenue and other support:</b>				
Property transferred to homeowners	\$ 1,589,813	\$ -	\$ 1,589,813	\$ 1,716,000
Contributions	407,093	967,070	1,374,163	1,038,021
Grants	1,306,816	42,563	1,349,379	1,229,642
Imputed interest on mortgage receivables	391,955	-	391,955	483,216
ReStore income	855,781	-	855,781	407,029
Other income	14,174	-	14,174	13,635
Interest income	89,244	-	89,244	106,133
Gain on sale of recycled homes	9,261	-	9,261	58,257
Satisfaction of program restrictions	638,567	(638,567)	-	-
Total revenue and other support	<u>5,302,704</u>	<u>371,066</u>	<u>5,673,770</u>	<u>5,051,933</u>
<b>Expenses:</b>				
Program services	3,880,374	-	3,880,374	3,840,110
ReStore	734,916	-	734,916	527,983
General and administrative	245,177	-	245,177	254,712
Fundraising	213,000	-	213,000	231,042
Total expenses	<u>5,073,467</u>	<u>-</u>	<u>5,073,467</u>	<u>4,853,847</u>
Change in net assets	229,237	371,066	600,303	198,086
Net assets - beginning of year	<u>7,892,738</u>	<u>227,288</u>	<u>8,120,026</u>	<u>7,921,940</u>
Net assets - end of year	<u>\$ 8,121,975</u>	<u>\$ 598,354</u>	<u>\$ 8,720,329</u>	<u>\$ 8,120,026</u>

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, 2016 and 2015

	2016	2015
<b>Cash flows from operating activities:</b>		
Change in net assets	\$ 600,303	\$ 198,086
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	108,125	84,924
Amortization	27,043	27,042
Imputed interest on mortgage receivables	(391,955)	(483,216)
Mortgage discount	961,897	1,024,783
CHFA mortgage discount	(14,971)	6,059
Gain on sale of mortgage	(9,261)	(58,257)
Changes in assets - (increase)/decrease:		
Inventory	484,160	482,841
Prepaid expenses	(2,110)	(180)
Grants and other receivables	(647,728)	(555,804)
Other real estate owned	(17,717)	(150,470)
Deposits and escrows	(2,516)	48,332
Changes in liabilities - increase/(decrease):		
Accounts payable and accrued expenses	93,218	60,895
Advance payments and downpayments	1,691	(60,856)
Net change in cash from operating activities	<u>1,190,179</u>	<u>624,179</u>
<b>Cash flows from investing activities:</b>		
New loans originated	(1,762,222)	(1,966,200)
Loan payments	561,241	862,850
Proceeds from sale of recycled homes	88,800	125,000
Purchase of land, buildings and equipment	(35,231)	(630,160)
Investments in partnerships	(53,396)	(70,257)
Net change in cash from investing activities	<u>(1,200,808)</u>	<u>(1,678,767)</u>
<b>Cash flows from financing activities:</b>		
Proceeds from notes payable	25,064	597,167
Payments on notes payable	(149,097)	(200,238)
Net change in cash from financing activities	<u>(124,033)</u>	<u>396,929</u>
Change in cash and cash equivalents	(134,662)	(657,659)
Cash and cash equivalents - beginning of year	<u>1,315,822</u>	<u>1,973,481</u>
Cash and cash equivalents - end of year	<u><u>\$ 1,181,160</u></u>	<u><u>\$ 1,315,822</u></u>
Supplementary information		
Interest paid	<u><u>\$ 86,785</u></u>	<u><u>\$ 119,544</u></u>

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, 2016  
(with comparative totals for the year ended June 30, 2015)

	Program Services	ReStore	Management and General	Fundraising	2016 Total	2015 Total
Cost of homes sold	\$ 1,889,675	\$ -	\$ -	\$ -	\$ 1,889,675	\$ 1,873,542
Other expenses:						
Auto and travel	8,264	10,473	2,296	918	21,951	36,962
Advertising	25,750	10,850	7,153	2,860	46,614	34,462
Development	-	-	-	-	-	920
Salaries	357,667	266,483	132,012	150,133	906,295	826,905
Payroll taxes and fringe benefits	74,949	45,897	27,654	31,449	179,949	177,764
Insurance	19,052	35,629	5,292	2,117	62,090	51,860
Miscellaneous	14,258	11,571	8,390	590	34,809	71,649
Moving and storage	-	111,127	-	-	111,127	-
Office repairs and maintenance	17,350	6,879	4,820	1,928	30,977	16,580
Office administration	47,484	29,218	13,191	5,276	95,169	70,392
Other program service costs	78,694	-	-	-	78,694	88,303
Professional fees	19,275	396	5,354	2,142	27,166	54,420
Occupancy expenses	46,884	68,255	13,020	5,206	133,364	84,381
Subcontractors	121,805	-	-	-	121,805	98,930
Tithe and donations to affiliates	42,821	-	-	-	42,821	36,705
Training and staff development	2,840	9,739	835	318	13,731	-
Utilities and telephone	1,311	38,904	364	146	40,725	50,489
Warranty costs	864	-	-	-	864	315
Special events	37,290	-	10,358	4,143	51,791	22,975
Interest	51,980	14,592	14,438	5,775	86,785	119,544
Total other expenses	968,537	660,013	245,177	213,000	2,086,727	1,843,556
Total expenses before mortgage discount and depreciation	2,858,212	660,013	245,177	213,000	3,976,403	3,717,098
Mortgage discount	961,897	-	-	-	961,897	1,024,783
Depreciation/amortization	60,265	74,903	-	-	135,168	111,966
Total expenses	\$ 3,880,374	\$ 734,916	\$ 245,177	\$ 213,000	\$ 5,073,467	\$ 4,853,847

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

# HARTFORD AREA HABITAT FOR HUMANITY, INC.

## Notes to the Consolidated Financial Statements

For the year ended June 30, 2016

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### 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 Affiliate. 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 Presentation - The accompanying financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles. Net assets and revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets of HAHFH and changes therein are classified and reported as follows:

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.

Contributions - Contributions, including unconditional promises to give, are recorded as 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, due in the 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.

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

In-kind contributions consist of, furnaces 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, 2016 and 2015, was \$103,625 and \$87,146, respectively.

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

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.

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.

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.

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.

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 statements of activities as investment income or loss.

Subsequent Events Measurement Date - HAHFH monitored and evaluated any subsequent events for footnote disclosures or adjustments required in its financial statements for fiscal year 2016 through December 2, 2016, the date on which the financial statements were available to be issued.

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, 2015, from which the summarized information was derived.

### NOTE 3 - INVENTORIES

At June 30, 2016 and 2015, respectively, the residential units in inventory consist of the following:

	2016	2015
Construction in progress and completed units that are unoccupied	\$ 166,983	\$ 480,244
Land	763,924	853,524
Construction in progress relating to NMTC #1	-	80,097
Land - NMTC #1	-	2,188
Construction in progress relating to NMTC #2	67,126	72,562
Land - NMTC #2	421,483	415,061
Total inventory	<u>\$ 1,419,516</u>	<u>\$ 1,903,676</u>

### NOTE 4 - OTHER REAL ESTATE OWNED

Other real estate owned is comprised of foreclosed 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.

### NOTE 5 - INVESTMENTS IN PARTNERSHIPS

During November 2011 and April 2012, HAHFH participated in two 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 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, 2020 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 2019 and May 2020, 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.

**NOTE 5 - INVESTMENTS IN PARTNERSHIPS (CONTINUED)**

The investments are recorded at market value as follows at June 30, 2016 and 2015:

	2016	2015
HFHI-SA NMTC VI, LLC	\$ 2,073,945	\$ 2,043,701
CCM Community Development XVII, LLC	1,553,800	1,530,648
	<u>\$ 3,627,745</u>	<u>\$ 3,574,349</u>

**NOTE 6 - MORTGAGE NOTES RECEIVABLE**

Mortgage notes receivable represents 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:

	2016	2015
Mortgage notes receivable	\$ 12,756,210	\$ 11,634,768
Less: unamortized discount on non-interest bearing mortgage notes receivable	(6,416,037)	(5,846,094)
	6,340,173	5,788,674
Less: current portion	(712,665)	(650,465)
	<u>\$ 5,627,508</u>	<u>\$ 5,138,209</u>

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 7.39% to 8.78%) is \$6,340,173 and \$5,788,674 at June 30, 2016 and 2015, respectively. The servicing of these mortgages is performed by a bank. The scheduled estimated maturities of these notes are approximately:

Year ended June 30,

2017	\$ 712,665
2018	712,665
2019	712,665
2020	712,665
2021	712,665
Thereafter	2,776,848
	<u>\$ 6,340,173</u>

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, 2016 and 2015, 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 mortgage 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 - TEMPORARILY RESTRICTED NET ASSETS

At June 30, 2016 and 2015, respectively, temporarily restricted net assets were subject to the following purpose restrictions:

	2016	2015
Housing construction	\$ 580,457	\$ 209,391
Education	17,897	17,897
Total temporarily restricted net assets	<u>\$ 598,354</u>	<u>\$ 227,288</u>

## NOTE 9 - 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 broken down between program and support services.

## NOTE 10 - PENSION PLAN

HAHFH provides a 401(k) plan for its employees. The eligible participant 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, 2016 and 2015, HAHFH's contributions totaled \$9,523 and \$4,506, respectively.

## NOTE 11 - 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 12 - LEASES

HAHFH signed a lease agreement in April of 2014 for retail space in Bloomfield, Connecticut for their ReStore which began operations during 2015. The lease commenced in October of 2014, with monthly payments of \$3,667 for the first ten years, or \$44,000 of annual fixed rent. There are four scheduled renewal terms for five years each with rent increases to be determined. Scheduled minimum lease payments over the next five years are as follows:

<u>For the years ended June 30:</u>	
2017	\$ 44,000
2018	44,000
2019	44,000
2020	44,000
2021	44,000

## NOTE 13 - LONG-TERM DEBT

At June 30, 2016 and 2015, long-term debt consists of the following:

	Maturity Date	Interest Rate	Outstanding Balance	
			June 30, 2016	June 30, 2015
Habitat for Humanity International SHOP/HUD Notes	12/31/2015	0.000%	\$ -	\$ 1,264
	6/30/2016	0.000%	-	1,884
	12/31/2016	0.000%	-	1,739
	12/31/2017	0.000%	2,820	4,692
	12/31/2020	0.000%	980	980
	6/30/2021	0.000%	3,563	3,562
	6/30/2021	0.000%	3,563	3,562
	6/30/2018	0.000%	7,506	18,750
	6/30/2018	0.000%	9,390	14,070
	12/31/2018	0.000%	6,576	12,192
	12/31/2019	0.000%	29,532	33,750
	12/31/2020	0.000%	5,000	5,000
	12/31/2020	0.000%	5,414	5,414
	12/31/2020	0.000%	3,750	3,750
	12/31/2020	0.000%	8,750	8,750
	6/30/2020	0.000%	17,500	17,500
	6/30/2020	0.000%	3,750	-
	6/30/2020	0.000%	3,563	-
	6/30/2020	0.000%	7,125	-
	6/30/2020	0.000%	10,625	-
			<u>129,407</u>	<u>136,859</u>
Windsor Federal Savings	2/1/2025	2.875%	\$ 463,479	\$ 505,955
	6/1/2019	6.000%	28,113	43,946
	1/1/2023	4.000%	62,853	70,201
	8/1/2024	4.000%	26,108	28,559
	2/1/2031	4.000%	57,721	60,351
	4/1/2031	4.000%	114,860	120,032
	12/1/2031	4.000%	57,550	60,170
	4/1/2032	4.000%	131,935	137,309
	7/1/2032	4.000%	138,296	143,923
			<u>1,080,915</u>	<u>1,170,446</u>
First Niagara	4/24/2027	6.000%	\$ 122,685	\$ 130,520
Connecticut Housing Finance Authority (CHFA)	2/1/2018	0.000%	7,645	12,169
	4/1/2019	0.000%	7,661	10,195
	10/1/2019	0.000%	6,715	8,587
	11/1/2019	0.000%	6,885	8,737
	6/1/2023	0.000%	14,261	15,958
	10/1/2023	0.000%	22,969	25,532
	8/1/2024	0.000%	16,735	18,392
	10/1/2024	0.000%	14,901	16,322
	5/1/2026	0.000%	20,854	22,450
	12/1/2030	0.000%	33,338	34,876
	11/1/2031	0.000%	39,549	41,219
	7/1/2032	0.000%	43,020	44,748
	10/1/2034	0.000%	45,742	47,368
			<u>280,275</u>	<u>306,553</u>
Toyota Financial Services	6/1/2020	3.900%	\$ 34,908	\$ 42,817
Total			1,648,190	1,787,195
Less: Current portion			(175,583)	(132,767)
			<u>\$ 1,472,607</u>	<u>\$ 1,654,428</u>

**NOTE 13 - 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 \$99,588 and \$114,559 at June 30, 2016 and 2015, 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,

2017	\$ 175,583
2018	156,766
2019	150,563
2020	170,849
2021	132,386
Thereafter	862,043
	<u>\$ 1,648,190</u>

HAHFH received funding through HFHI from HUD to complete new properties. The total of the awards received during the period ending June 30, 2016 and 2015, is approximately \$200,000 and \$90,000. 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 Habitat for Humanity International (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, 2016 and 2015.

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, 2016 and 2015:

	<u>Maturity</u>	<u>Rate</u>	<u>2016</u>	<u>2015</u>
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			<u>\$ 4,431,620</u>	<u>4,431,620</u>

HAHFH received financing from Windsor Federal Savings in the amount of \$525,000 in a note dated July 7, 2014. Monthly payments of principal and interest in the amount of \$5,049 commenced on September 1, 2014, with all unpaid principal and interest due on February 1, 2025. Interest is calculated at 2.875% per year. 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 14 - IN-KIND CONTRIBUTIONS**

HAF receives construction supplies at no cost to HAHFH. Additionally, various other companies provide services and products at no cost to HAHFH. Contributed services are recognized as revenue if the services create or enhance nonfinancial assets or require specialized skills, are provided by individuals possessing those skills, and typically would need to be purchased if not provided by donation. Contributed services are recorded at the fair value of the services provided. Contributed services and promises to contribute services that do not meet the above criteria are not recognized as revenues and are not reported in the accompanying financial statements.

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.

## **II. State Single Audit Reports**



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 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, 2016 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 December 2, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of 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.

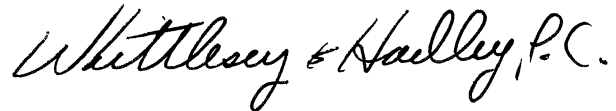
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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.

A handwritten signature in cursive script that reads "Whittlesey & Hailey, P.C.".

Hartford, Connecticut  
December 2, 2016



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE  
FOR EACH MAJOR STATE PROGRAM AND 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, 2016. 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 each of 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, 2016.

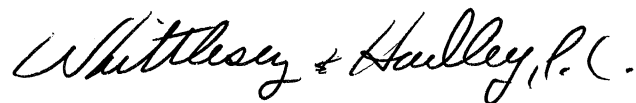
### **Report on Internal Control over Compliance**

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 each major state program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinion on compliance for each 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.



Hartford, Connecticut  
December 2, 2016

# **HARTFORD AREA HABITAT FOR HUMANITY, INC.**

## **Schedule of Expenditures of State Financial Assistance**

For the year ended June 30, 2016

<u>State Grantor and Program</u>	<u>State Grant Program Core-CT Number</u>	<u>Expenditures</u>
<b>State of Connecticut Department of Housing</b>		
Affordable Housing (FLEXIBLE Program)	12064-DOH46920-40238-150	<u>\$ 600,000</u>
Total Expenditures of State Financial Assistance		<u><u>\$ 600,000</u></u>

See accompanying note to schedule of expenditures of state awards.

## **HARTFORD AREA HABITAT FOR HUMANITY, INC.**

### **Note to Schedule of Expenditures of State Financial Awards**

For the year ended June 30, 2016

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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.

#### **NOTE 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 following is a summary of the more significant policies relating to the aforementioned grant programs.

##### **Basis of Accounting:**

The financial statements contained in the Hartford Area Habitat for Humanity, Inc.'s annual audit report are prepared on the accrual basis. The following is a summary of such basis:

- Revenues are recognized when earned.
- Expenditures are recorded when incurred.

The Schedule of Expenditures of State Financial Assistance, contained in this report, is prepared based on regulations established by the State of Connecticut Office of Policy and Management. In accordance with these regulations (Section 4-236-22), 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 of Expenditures of State Financial Assistance.



# HARTFORD AREA HABITAT FOR HUMANITY, INC.

## Schedule of Findings and Questioned Costs

For the year ended June 30, 2016

### I. SUMMARY OF AUDITOR'S RESULTS

#### Financial Statements

Type of auditor's 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 auditor's 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:

<u>Program</u>	<u>State Core-CT Number</u>	<u>Expenditures</u>
Affordable Housing (FLEXIBLE Program)	12064-DOH46920-40238-150	\$ 600,000

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

**HARTFORD AREA HABITAT FOR HUMANITY, INC.**

Schedule of Findings and Questioned Costs (*CONTINUED*)

For the year ended June 30, 2016

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**II. FINANCIAL STATEMENTS FINDINGS**

Our report on compliance indicated no reportable instances of noncompliance.

Our report on internal control over financial reporting indicated no significant deficiencies.

**III. STATE FINANCIAL ASSISTANCE FINDINGS AND QUESTIONED COSTS**

No matters were reported.