

**HOUSING DEVELOPMENT FUND, INC.  
AND ITS SUBSIDIARY**

**Consolidated Financial Statements**

**Year Ended June 30, 2020  
(with comparative totals for 2019)**

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

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## Independent Auditor's Report

The Board of Directors  
Housing Development Fund, Inc. and its Subsidiary  
Stamford, Connecticut

### *Report on the Financial Statements*

We have audited the accompanying consolidated financial statements of Housing Development Fund, Inc. and its Subsidiary (HDF) which are comprised of the consolidated statement of financial position as of June 30, 2020, and the related consolidated statements of activities, cash flows and functional expenses for the year then ended, and the related notes to the consolidated financial statements.

### *Management 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

The Board of Directors  
Housing Development Fund, Inc. and its Subsidiary

*Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Housing Development Fund, Inc. and its Subsidiary as of June 30, 2020 and the changes in their net assets and their 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 HDF's consolidated financial statements as of and for the year ended June 30, 2019, and we expressed an unmodified opinion on those audited consolidated financial statements in our report dated September 4, 2019. In our opinion, the summarized consolidated comparative information presented herein as of and for the year ended June 30, 2019 is consistent, in all material respects, with the consolidated audited financial statements from which it has been derived (Note 19).

*Other Matter*

Our audit was conducted for the purpose of forming an opinion on the basic consolidated financial statements as a whole. The accompanying supplementary schedule for the year ended June 30, 2020, as indicated in the contents to the consolidated financial statements is presented for purposes of additional analysis and is not a required part of the basic consolidated 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 consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the consolidated 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 aspects in relation to the consolidated financial statements as a whole.

*Cirone Friedberg, LLP*

Shelton, Connecticut  
October 21, 2020

## HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

(with comparative totals for 2019)

<b>ASSETS</b>	<b><u>2020</u></b>	<b><u>2019</u></b>
Cash and Cash Equivalents	\$ 7,135,998	\$ 7,197,645
Accrued Interest Receivable	106,162	120,520
Contracts and Other Receivables	983,566	786,516
Prepaid Expenses and Other Assets	82,920	54,957
Unrestricted Investments	-	117,503
Loans Receivable, Net of Allowance for Loan Losses and Deferred Fees	36,299,868	35,140,468
Investments in Custodial Receipts	1,321,707	1,288,231
Furnishings and Equipment, Net of Accumulated Depreciation	12,863	22,368
Leasehold, Net of Accumulated Amortization	389,478	403,185
Buildings, Net of Accumulated Depreciation	322,627	326,986
Land	910,150	910,150
Construction in Progress	351,000	-
Investments Held for the Deferred Compensation Plan	81,507	196,175
	<u>47,997,846</u>	<u>46,564,704</u>
<u>Assets Restricted for Long-Term Purposes</u>		
Cash and Cash Equivalents	188,607	184,269
Investments	298,083	277,362
Loans Receivable, Net of Allowance for Loan Losses	356,409	381,468
Total Assets Restricted for Long-Term Purposes	<u>843,099</u>	<u>843,099</u>
Agency Assets	<u>12,578,561</u>	<u>12,839,528</u>
<b>Total Assets</b>	<b><u>\$ 61,419,506</u></b>	<b><u>\$ 60,247,331</u></b>
 <b>LIABILITIES AND NET ASSETS</b>		
<u>Liabilities</u>		
Notes Payable	\$ 23,810,465	\$ 23,950,438
Accrued Interest Payable	90,977	96,376
Accrued Expenses and Other Liabilities	475,707	280,441
Deferred Fund-raising Revenue	37,000	-
Borrower Escrow Accounts	983,681	786,828
Refundable Advances on Contributions	1,099,462	-
Refundable Advances on Grants	314,292	277,074
Deferred Compensation Obligation	81,507	196,175
Agency Liabilities	<u>12,578,561</u>	<u>12,839,528</u>
Total Liabilities	<u>39,471,652</u>	<u>38,426,860</u>
<u>Net Assets</u>		
Without Donor Restriction:		
Net Investment in Furnishings and Equipment, Buildings, Land and Construction in Progress	1,596,640	1,259,504
Board Designated	16,167,994	16,444,419
Undesignated - Available for Operations	<u>1,902,520</u>	<u>1,446,368</u>
Total Without Donor Restriction	<u>19,667,154</u>	<u>19,150,291</u>
With Donor Restriction	<u>2,280,700</u>	<u>2,670,180</u>
Total Net Assets	<u>21,947,854</u>	<u>21,820,471</u>
<b>Total Liabilities and Net Assets</b>	<b><u>\$ 61,419,506</u></b>	<b><u>\$ 60,247,331</u></b>

See notes to consolidated financial statements.

HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020  
(with comparative totals for 2019)

	2020		2019	
	Without Donor Restriction	With Donor Restriction	Total	Total
<u>Financing Revenues</u>				
Interest Income - Loans	\$ 1,188,418	\$ -	\$ 1,188,418	\$ 1,273,059
Investment Income, Net	152,688	-	152,688	128,258
Contracts and Fees	453,186	-	453,186	669,698
Total Financing Revenues	<u>1,794,292</u>	<u>-</u>	<u>1,794,292</u>	<u>2,071,015</u>
<u>Financing Expenses</u>				
Interest Expense	410,737	-	410,737	441,617
Provision for Loan Losses	296,769	-	296,769	515,198
Total Financing Expenses	<u>707,506</u>	<u>-</u>	<u>707,506</u>	<u>956,815</u>
Net Financing Revenues	<u>1,086,786</u>	<u>-</u>	<u>1,086,786</u>	<u>1,114,200</u>
<u>Contributions, Grants, Other Support, and Revenue</u>				
Contributions	555,242	-	555,242	1,618,828
Grant Revenue, Net of Recovery of Provision for Forgivable Loans of \$24,000 in 2020 and \$36,000 in 2019	1,149,365	-	1,149,365	3,785,298
Rental Income	82,235	-	82,235	42,183
Fund-raising Event	120	-	120	78,855
In-kind Contributions	80,381	-	80,381	5,500
Miscellaneous	-	-	-	4,149
Total Contributions, Grants, Other Support, and Revenue	<u>1,867,343</u>	<u>-</u>	<u>1,867,343</u>	<u>5,534,813</u>
<u>Net Assets Released from Restrictions</u>				
Purpose Restrictions	375,773	(375,773)	-	-
Time Restrictions	13,707	(13,707)	-	-
Total Net Assets Released from Restrictions	<u>389,480</u>	<u>(389,480)</u>	<u>-</u>	<u>-</u>
Total Net Financing Revenues, Contributions, Grants, Other Support, and Revenue	<u>3,343,609</u>	<u>(389,480)</u>	<u>2,954,129</u>	<u>6,649,013</u>

See notes to consolidated financial statements.

HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2020  
(with comparative totals for 2019)

	2020			2019
	Without Donor Restriction	With Donor Restriction	Total	Total
<u>Expenses</u>				
Program Services:				
Multi-Family Housing	\$ 351,591	\$ -	\$ 351,591	\$ 435,460
Homebuyer Assistance Underwriting	880,864	-	880,864	1,250,670
Homebuyer Assistance Counseling	539,102	-	539,102	565,585
Property Management	224,171	-	224,171	62,062
Total Program Services	1,995,728	-	1,995,728	2,313,777
Support Services:				
Management, General and Fund Raising	831,018	-	831,018	1,308,477
Cost of Direct Benefits to Donors	-	-	-	28,088
Total Expenses	2,826,746	-	2,826,746	3,650,342
Change in Net Assets	516,863	(389,480)	127,383	2,998,671
Net Assets at Beginning of Year	19,150,291	2,670,180	21,820,471	18,821,800
<b>Net Assets at End of Year</b>	<b>\$19,667,154</b>	<b>\$ 2,280,700</b>	<b>\$21,947,854</b>	<b>\$21,820,471</b>

See notes to consolidated financial statements.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**CONSOLIDATED STATEMENT OF CASH FLOWS**  
**YEAR ENDED JUNE 30, 2020**  
**(with comparative totals for 2019)**

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Operating Activities</b>		
Change in Net Assets	\$ 127,383	\$ 2,998,671
Adjustments to Reconcile Change in Net Assets to Net Cash Provided (Used) by Operating Activities:		
Depreciation and Amortization	35,258	32,081
Amortization of Deferred Fees	(20,101)	(32,703)
Unrealized (Appreciation) Depreciation on Investments in Custodial Receipts	(33,476)	22,245
Unrealized Appreciation on Assets Restricted for Long-Term Investments	(15,214)	(20,699)
Provision for Loan Losses	296,769	515,198
Recovery of Forgivable Loans	(24,000)	(36,000)
Change in:		
Accrued Interest Receivable	14,358	15,163
Contracts and Other Receivables	(197,050)	(231)
Prepaid Expenses and Other Assets	(27,963)	(5,857)
Agency Assets	260,967	183,587
Accrued Interest Payable	(5,399)	(3,965)
Accrued Expenses and Other Liabilities	195,266	82,913
Deferred Fund-raising Revenue	37,000	-
Refundable Advances on Contributions	1,099,462	-
Refundable Advances on Grants	37,218	(1,781,415)
Deferred Compensation Obligation	(119,866)	(118,237)
Agency Liabilities	(260,967)	(183,587)
Total Adjustments	<u>1,272,262</u>	<u>(1,331,507)</u>
Net Cash Provided by Operating Activities	<u>1,399,645</u>	<u>1,667,164</u>
<b>Cash Flows from Investing Activities</b>		
Net Increase in Loans Receivable	(1,412,068)	(2,111,933)
Additions to Furnishings and Equipment	-	(13,444)
Acquisition of Land and Buildings	(7,687)	(1,241,406)
Increase in Construction in Progress	(351,000)	-
Proceeds from Sale of Investments	117,503	503,789
Purchase of Investments	-	(586)
Purchase of Investments for Long-Term Purposes	(20,721)	(26,087)
Decrease in Assets Restricted for Long-Term Purposes - Loans Receivable, Net	25,059	35,367
Decrease in Assets Restricted for Long-Term Purposes - Deposit on Purchase of Property	-	38,000
Net Increase in Borrower Escrow Accounts	196,853	16,742
Decrease in Investments Held for Deferred Compensation Plan	119,866	118,237
Unrealized Appreciation on Assets Restricted for Long-Term Investments	15,214	20,699
Net Cash Used by Investing Activities	<u>(1,316,981)</u>	<u>(2,660,622)</u>

See notes to consolidated financial statements.



HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

CONSOLIDATED STATEMENT OF CASH FLOWS  
YEAR ENDED JUNE 30, 2020  
(with comparative totals for 2019)

	<u>2020</u>	<u>2019</u>
<b>Cash Flows from Financing Activities</b>		
Proceeds from Notes Payable	\$ 1,750,446	\$ 1,174,500
Repayments of Notes Payable	<u>(1,890,419)</u>	<u>(1,954,243)</u>
Net Cash Used by Financing Activities	<u>(139,973)</u>	<u>(779,743)</u>
 Net Decrease in Cash and Cash Equivalents and Restricted Cash and Restricted Cash Equivalents	 (57,309)	 (1,773,201)
 Cash and Cash Equivalents and Restricted Cash and Restricted Cash Equivalents - Beginning of Year	 <u>7,381,914</u>	 <u>9,155,115</u>
 <b>Cash and Cash Equivalents and Restricted Cash and Restricted Cash Equivalents - End of Year</b>	 <b><u>\$ 7,324,605</u></b>	 <b><u>\$ 7,381,914</u></b>
 <b>Supplemental Disclosure of Cash Flow Information</b>		
Cash Paid During the Year For:		
Interest	<u>\$ 416,136</u>	<u>\$ 445,582</u>
 Reconciliation of Cash and Cash Equivalents and Restricted Cash and Restricted Cash Equivalents:		
Cash and Cash Equivalents	\$ 7,135,998	\$ 7,197,645
Restricted Cash and Restricted Cash Equivalents		
Restricted as Investments for Long-Term Purposes	<u>188,607</u>	<u>184,269</u>
Total Cash and Cash Equivalents and Restricted Cash and Restricted Cash Equivalents	<u>\$ 7,324,605</u>	<u>\$ 7,381,914</u>

See notes to consolidated financial statements.

## HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

**CONSOLIDATED STATEMENT OF FUNCTIONAL EXPENSES**  
**YEAR ENDED JUNE 30, 2020**  
**(with comparative totals for 2019)**

Expenses	2020					2019		
	PROGRAM SERVICES				Total	SUPPORT SERVICES		
	Multi - Family Housing	Homebuyer Assistance Underwriting	Homebuyer Assistance Counseling	Property Management		Management, General and Fund Raising	Total	Total
Personnel Expenses:								
Salaries and Wages	\$ 216,636	\$ 519,829	\$ 377,464	\$ 112,104	\$ 1,226,033	\$ 428,422	\$ 1,654,455	\$ 2,167,579
Payroll Taxes	27,701	66,490	48,270	14,348	156,809	54,809	211,618	247,800
Employee Benefits	3,486	58,484	31,000	-	92,970	130,676	223,646	275,187
Total Personnel Expenses	247,823	644,803	456,734	126,452	1,475,812	613,907	2,089,719	2,690,566
Professional and Consulting Fees	27,256	37,448	6,250	1,850	72,804	34,080	106,884	280,841
Lending Related Expenses	35,075	22,238	-	-	57,313	-	57,313	61,777
Property Management Expenses	-	-	-	39,390	39,390	-	39,390	39,696
Partner Agency Fees	-	1,750	-	-	1,750	-	1,750	18,250
Insurance	8,837	20,675	7,107	-	36,619	15,339	51,958	54,798
Occupancy	4,062	33,042	26,922	-	64,026	33,033	97,059	99,564
Telephone	2,228	7,201	3,714	-	13,143	7,336	20,479	21,640
Dues and Subscriptions	3,518	18,595	2,904	-	25,017	8,577	33,594	46,003
Conferences and Training	200	875	3,609	-	4,684	7,480	12,164	20,392
Office Supplies and Expenses	5,951	26,157	15,739	915	48,762	15,100	63,862	48,708
Equipment Leases and Maintenance	9,756	55,525	8,353	-	73,634	36,435	110,069	131,904
Marketing	91	64	8	-	163	4,268	4,431	22,411
Travel and Parking	543	3,133	4,795	-	8,471	3,294	11,765	36,457
Postage	890	428	52	-	1,370	784	2,154	5,458
Fund-raising Event Expenses	-	-	-	-	-	8,516	8,516	6,208
Total Expenses before Depreciation and Amortization, and In-kind Expenses	346,230	871,934	536,187	168,607	1,922,958	788,149	2,711,107	3,584,673
Depreciation and Amortization	3,498	8,930	2,915	12,046	27,389	7,869	35,258	32,081
In-kind Expenses - Legal Fees	1,863	-	-	43,518	45,381	35,000	80,381	5,500
<b>Total Functional Expenses</b>	<b>\$ 351,591</b>	<b>\$ 880,864</b>	<b>\$ 539,102</b>	<b>\$ 224,171</b>	<b>\$ 1,995,728</b>	<b>\$ 831,018</b>	<b>\$ 2,826,746</b>	<b>\$ 3,622,254</b>

See notes to consolidated financial statements.

# HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

## NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

(with comparative totals for 2019)

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### NOTE 1 - NATURE OF OPERATIONS

Housing Development Fund, Inc. (HDF) facilitates the development of affordable housing, both rental and homeownership, and assists households to become owners of affordable homes. HDF accomplishes this by providing low-interest, flexible financing and technical assistance to developers; by providing homebuyer assistance financing and homeownership counseling to homebuyers; and by working with the private sector, non-profits and government to facilitate the creation of more affordable housing. HDF believes that all households and families should have the opportunity and access to affordable housing, and that affordable housing and economic diversity are beneficial to communities.

#### Nonprofit Status

HDF is a not-for-profit organization incorporated under the Nonstock Corporation Act of the State of Connecticut, and is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code. HDF is also exempt from state income tax. HDF has received regulatory approval to operate in New York and Massachusetts.

#### Community Development Financial Institution

HDF has been granted status as a certified Community Development Financial Institution (CDFI) since 1996 by the U.S. Department of Treasury (the Treasury), qualifying it for certain awards and support from the Treasury. HDF has received grants from the Treasury totaling \$7,254,042 through June 30, 2020.

To be eligible for CDFI certification, an organization must meet the following criteria:

- Have a primary mission of promoting community development
- Provide both financial and educational services
- Serve and maintain accountability to one or more defined target markets
- Maintain accountability to a defined market
- Be a legal, non-governmental entity at the time of application (with the exception of tribal governmental entities)

### NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### Principles of Consolidation

HDF is the sole member of an entity formed to conduct certain activities of HDF related to its foreclosure initiatives. HDF Community Works, LLC qualifies as a disregarded entity under Internal Revenue Service regulations, and accordingly, their financial activities are reported within the tax returns of HDF. In a consistent manner, the financial activities of this entity are reported within the consolidated financial statements of HDF. Intercompany balances and transactions have been eliminated.

HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

(with comparative totals for 2019)

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

Newly Adopted Accounting Standards

Effective July 1, 2019, HDF adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) 2014-09: *Revenue from Contracts with Customers (Topic 606)*. Topic 606 and subsequently issued clarifying ASUs related to Topic 606 replaced most existing revenue recognition guidance in accounting principles generally accepted in the United States of America (U.S. GAAP). Topic 606 also requires expanded disclosures related to the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The core principle of Topic 606 is to recognize revenue when promised goods or services are transferred to customers in an amount that reflects the consideration expected to be received for those goods or services.

HDF adopted Topic 606 using the modified retrospective method. This method allows the standard to be applied retrospectively through a cumulative catch up adjustment recognized upon adoption. As such, comparative information in HDF's financial statements have not been restated and continues to be reported under the accounting standards in effect for that period. Management's analysis of various provisions of Topic 606 resulted in no significant changes in the way HDF recognizes revenue, and therefore, there was no cumulative adjustment for the year ended June 30, 2020. The presentation and disclosures of revenue have been enhanced in accordance with Topic 606.

Effective July 1, 2019, HDF adopted FASB ASU 2016-18: *Statement of Cash Flows (Topic 230): Restricted Cash* (ASU 2016-18), that updated and replaced existing statement of cash flows guidance. ASU 2016-18 requires cash balances in the statement of cash flows to include those amounts that are deemed to be restricted cash.

The effect of applying ASU 2016-18 was to restate the beginning cash and cash equivalents and restricted cash and restricted cash equivalents on the consolidated statement of cash flows as of July 1, 2018 by \$314,565. The adoption of ASU 2016-18 had no effect on the net assets of HDF and was applied on a retrospective basis.

Effective July 1, 2019, HDF adopted FASB ASU 2018-08: *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made* (ASU 2018-08). ASU 2018-08 clarifies and improves the guidance about whether a transfer of assets (or the reduction, settlement, or cancellation of liabilities) is a contribution or an exchange transaction. ASU 2018-08 also requires an entity to determine whether a contribution is conditional on the basis of whether an agreement includes a barrier that must be overcome and either a right of return of assets transferred or a right of release of a promisor's obligation to transfer assets.

HDF adopted ASU 2018-08 using the modified prospective method. This method allows the standard to be applied to agreements that either are not complete as of the effective date, or are entered into as of the effective date. As such, comparative information in HDF's consolidated financial statements has not been restated and continues to be reported under the accounting standards in effect for that period. Management's analysis of the various provisions of ASU 2018-08 resulted in no significant changes in the way HDF recognized revenue. The presentation and disclosures of revenue have been enhanced in accordance with the standard.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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

Net Asset Classes

The net asset classes of HDF consist of the following:

Net Assets Without Donor Restriction

Net assets without donor restriction consist of net assets over which the governing board has control to use in carrying out the operations of HDF in accordance with its charter and by-laws and are not restricted by donor-imposed restrictions.

Certain net assets without donor restriction have been designated by the board.

The net investment in furnishings and equipment, buildings, land, and construction in progress consists of the net book value of furnishings and equipment, buildings, land, and construction in progress acquired with net assets without donor restriction.

Net Assets With Donor Restriction

Net assets with donor restriction consist of net assets subject to stipulations by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of HDF or by the passage of time. Other donor restrictions are perpetual in nature, where the donor has stipulated the funds be maintained in perpetuity and that only the income from investment thereof be expended either for general purposes or purposes specified by the donor.

Donor restricted contributions are reported as an increase in net assets with donor restriction. When a restriction expires or the restricted purpose is satisfied, net assets are reclassified from net assets with donor restriction to net assets without donor restriction in the consolidated statement of activities. If a restriction is fulfilled in the same period in which the contribution is received, HDF reflects the support as a contribution without donor restriction.

Revenue Recognition

HDF recognizes revenue from cost-reimbursed federal and state grants, which are conditional upon certain performance requirements and/or the incurrence of certain allowable qualifying expenses, or when HDF has incurred expenditures in compliance with specific grant provisions. Amounts received prior to incurring qualifying expenditures are reported as refundable advances in the consolidated statement of financial position.

HDF recognizes contributions when cash, securities, an unconditional promise to give, other assets, or a notification of a beneficial interest are received. Conditional contributions and promises to give, that is, those with measurable performance or other barriers and a right of return, are not recognized until the conditions on which they depend have been met. Amounts received prior to conditions being met are reported as refundable advances in the consolidated statement of financial position.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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

Revenue Recognition (continued)

HDF recognizes contracts and fees and fund-raising event income at a point in time, when they have satisfied their performance obligation, which is when loan applications are processed and closed, homebuyer counseling classes are held, or the fund-raising event takes place. Amounts received prior to the satisfaction of performance obligations are deferred in the consolidated statement of financial position.

HDF recognizes rental income in accordance with FASB Accounting Standards Codification (ASC) Leases (ASC 840), and is reflected as rental income in the consolidated statement of activities.

Contributions

Contributions received or promises to give without donor-imposed restrictions are reflected as support without donor restriction. Contributions received or promises to give with donor-imposed restrictions are reflected as support with donor restriction in the accompanying consolidated financial statements. Contributions and promises to give with donor-imposed conditions are not recognized as contributions or promises to give in the accompanying consolidated financial statements until the period when the conditions are met.

Promises to give that are expected to be received within one year of the financial statement date are reflected at their net realizable value (the gross amount of the promises to give, net of an allowance for uncollectible amounts). Promises to give that are expected to be collected more than one year after the financial statement date are reflected at the present value of their estimated future cash flows using a discount rate commensurate with the risks involved at the date the promise to give was recorded.

Cash Equivalents

HDF considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents.

Investments

Investments are reflected at fair value. Realized gains or losses and unrealized appreciation or depreciation on investments are reflected on the accompanying consolidated statement of activities as increases or decreases in unrestricted net assets unless their use is restricted by donor stipulation.

Investments at June 30, 2020 and 2019 consisted of unrestricted investments, investments held to maturity, investments for long-term investment purposes and investments for the deferred compensation plan.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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

Loans - Mortgage and Homebuyer Assistance Loans

These loans receivable are reflected at their unpaid principal balance, net of applicable deferred fees and direct costs. Interest is accrued and included in interest income based on contractual rates applied to principal amounts outstanding. The net deferred fees are amortized over the term of the loans. There are no origination and commitment fees on homebuyer assistance loans.

Mortgage loan origination and commitment fees, net of certain direct costs, are recognized over the contractual life of the related loan. When loans are prepaid, sold or participated out, the unamortized portion of fees is recognized as income at that time.

Allowance for Loan Losses - Mortgage, Construction and Other Loans and Homebuyer Assistance Loans

The provision for loan losses reflects the amount deemed appropriate by management to maintain the allowance for loan losses at a level adequate to absorb losses in the loan portfolio. The allowance for loan losses is based on estimates and ultimate losses may vary from current estimates. In estimating losses, consideration is given to the performance of the asset, the financial condition of the borrower or guarantor, estimates of the current value of the underlying collateral based on appraisals and analysis of current cash flow of income producing properties, the overall risk characteristics and size of the loan portfolio, current economic and real estate market conditions, and other relevant factors.

Furnishings and Equipment

All acquisitions or donations of furnishings and equipment are reflected at cost or their fair value at the date of the gift. Depreciation is provided on a straight-line basis over the five-year estimated useful lives of the assets.

Leasehold

During the year ended June 30, 2009, HDF received an in-kind contribution of a ninety-nine year leasehold interest in its Stamford office premises. The leasehold has been valued at its fair value of \$548,240. Amortization is provided on a straight-line basis over a forty-year period, commencing November 2008.

Buildings

Acquisitions of buildings are reflected at cost. Depreciation is provided on a straight-line basis over the twenty-nine year useful life of the assets.

Land

Acquisitions of land are reflected at cost.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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

Construction in Progress

Construction in progress is stated at cost, which includes the cost of construction and other direct costs attributable to the construction. No provision for depreciation is made on construction in progress until such times as the relevant assets are completed and put into use. Construction in progress at June 30, 2020 represents costs associated with the South End Project (Note 6).

Contributed Goods, Services and Facilities

Goods, services and facilities have been provided by various organizations and a number of unpaid volunteers have contributed their time. Contributions are recognized if the goods or services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributed goods, services and facilities that do not meet the above criteria are not recognized.

During the years ended June 30, 2020 and 2019, in-kind contributions and corresponding in-kind legal expenses of \$80,381 and \$5,500 have been reflected by HDF in the accompanying consolidated financial statements.

Functional Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in the accompanying consolidated statement of activities. The consolidated statement of functional expenses presents the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited. Such allocations are determined by HDF on an equitable basis. Salaries and benefits are allocated based on specific function, time and effort. Occupancy and depreciation and amortization costs are allocated based on specific location and the number of staff at the location by their function. Expenses, such as professional and consulting fees, lending related expenses, insurance, dues and subscriptions, conferences and training, office supplies and expenses and equipment leases and maintenance are allocated based on direct costs related to each program.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP 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 financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Reclassifications

Certain reclassifications have been made to the 2019 financial statements to conform to the 2020 presentation.



## HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

(with comparative totals for 2019)

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

##### Subsequent Events

Management has evaluated subsequent events through October 21, 2020, the date the consolidated financial statements were available to be issued. Through that date there were no material events that would require recognition or additional disclosures in the financial statements except as disclosed in Note 20.

#### NOTE 3 - CONCENTRATION OF RISK

##### Cash and Cash Equivalents

HDF maintains cash and cash equivalent accounts at several Connecticut banks. Cash accounts are insured up to \$250,000 per bank by the Federal Deposit Insurance Corporation. At times during the year, the cash balances may have exceeded the insured limits.

##### Loans Receivable

HDF's lending activities are with borrowers primarily in southwestern Connecticut. All loans are secured by real estate and are scheduled to be repaid from the cash flow of the borrower or the proceeds from the sale or refinancing of the underlying collateral. HDF evaluates the credit risk of each borrower and on each project. HDF's loans are all concentrated in the low income and special needs housing markets. Since the tenants of HDF's projects typically require housing subsidies, there is significant reliance on federal assistance to support the rental income earned on the underlying properties.

#### NOTE 4 - LIQUIDITY

HDF is regularly funded by contributions from donors that contain restrictions. Those restrictions require resources to be used in a certain manner or in a future period. Therefore, HDF must maintain adequate resources to meet those responsibilities to its donors and certain financial assets may not be available for general expenditures within one year. As part of its liquidity management, HDF has a policy to structure its financial assets to be available as general expenditures, liabilities and other obligations become due. HDF defines general expenditures as those expenditures required to meet general and administrative expenses of the organization.

The following table reflects HDF's financial assets as of June 30, 2020 and 2019, reduced by amounts that are not available for general use within one year of the statement of financial position date due to donor-imposed or contractual restrictions. Amounts that are not available also include board designated amounts that could be utilized, if the Board of Directors approved the use, and cash and cash equivalents restricted for long-term purposes at June 30, 2020 and 2019 of \$188,607 and \$184,269, respectively.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

**NOTE 4 - LIQUIDITY (CONTINUED)**

As of June 30, 2020 and 2019, the following financial assets are available to meet annual operating needs for the years ending June 30, 2021 and 2020:

	<u>2020</u>	<u>2019</u>
Cash and Cash Equivalents	\$7,135,998	\$7,197,645
Multi-family Loans Receivable Due Within One Year	553,248	495,931
Accrued Interest Receivable	<u>106,162</u>	<u>120,520</u>
Total Financial Assets	<u>7,795,408</u>	<u>7,814,096</u>
Less Amounts Unavailable for General Expenditures Within One Year Due to:		
<u>Donor-Imposed Restrictions</u>		
Unadvanced Live Where You Work Contributions	912,729	931,379
Revolving Loan Fund in 2004	36,000	36,000
Revolving Loan Fund - Down Payment Assistance in 2004	15,000	15,000
CDFI - F/A Down Payment Assistance	-	214,873
CDFI - F/A Loan Loss Reserve	-	108,380
LCB Funding for Westport Properties	<u>84,394</u>	<u>118,263</u>
Total Donor-Imposed Restrictions	<u>1,048,123</u>	<u>1,423,895</u>
<u>Contractual Restrictions</u>		
Multi-family Escrow Balances	-	84,206
NeighborWorks Project Reinvest	12,074	252,074
NeighborWorks LIFT	63,000	45,000
American Dream Down Payment Initiative	-	25,000
Unadvanced McArthur Loan Fund	1,345,502	2,702,642
Flexible Spending Program	106,000	106,000
Undisbursed Consortium Bank Funding	372,682	-
Funds for the South End Project	1,099,462	-
Principal Repayments Due to Consortium Banks	352,213	322,711
Accrued Interest Due to Consortium Banks	<u>90,977</u>	<u>96,376</u>
Total Contractual Restrictions	<u>3,441,910</u>	<u>3,634,009</u>
Total Donor-Imposed and Contractual Restrictions	<u>4,490,033</u>	<u>5,057,904</u>
Board Designations		
Revolving Loan Fund - Flexible Funding for Multi-family Loans	<u>201,035</u>	<u>173,220</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u><u>\$3,104,340</u></u>	<u><u>\$2,582,972</u></u>

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

**NOTE 5 - FURNISHINGS AND EQUIPMENT, LEASEHOLD, BUILDINGS AND LAND**

Furnishings and equipment, leasehold, buildings and land, net, at June 30, consisted of:

	<u>Cost</u>	<u>Accumulated Depreciation/ Amortization</u>	<u>Net</u>
<u>2020</u>			
Furnishings and Equipment	\$ 33,213	\$ (20,350)	\$ 12,863
Leasehold	548,240	(158,762)	389,478
Buildings	338,943	(16,316)	322,627
Land	<u>910,150</u>	<u>-</u>	<u>910,150</u>
Total	<u>\$ 1,830,546</u>	<u>\$ (195,428)</u>	<u>\$ 1,635,118</u>
 <u>2019</u>			
Furnishings and Equipment	\$ 78,626	\$ (56,258)	\$ 22,368
Leasehold	548,240	(145,055)	403,185
Buildings	331,256	(4,270)	326,986
Land	<u>910,150</u>	<u>-</u>	<u>910,150</u>
Total	<u>\$ 1,868,272</u>	<u>\$ (205,583)</u>	<u>\$ 1,662,689</u>

During the year ended June 30, 2019, HDF purchased buildings and land to be used as affordable rental housing in lower Fairfield County, Connecticut. HDF received a \$1,000,000 contribution to fund the purchase of two of the properties and related maintenance and administrative costs. During the year ended June 30, 2019, HDF purchased the properties with a cost of \$859,074. During the years ended June 30, 2020 and 2019, HDF incurred maintenance and administrative costs of \$33,869 and \$22,663, respectively. As of June 30, 2020 and 2019, \$84,394 and \$118,263 is reflected as donor restricted net assets, respectively.

**NOTE 6 - SOUTH END PROJECT**

During the year ended June 30, 2020, HDF entered into a fee-in-lieu (FIL) agreement (Agreement) with the City of Stamford for the South End Project (Project). The Agreement provides FIL in the amount of \$1,098,484 which is to be used to purchase and rehabilitate a minimum of ten deed restricted units of below market rate housing. The units are deed restricted for families making not more than 50% of the area median income (AMI). The Agreement allows for 10% of the FIL to be used for administrative costs on a pro-rata basis.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 6 - SOUTH END PROJECT (CONTINUED)**

At the signing of the Agreement the FIL was placed in an interest bearing escrow account. The Agreement called for HDF to meet certain requirements for the release of the FIL, plus interest earned. After the release of the FIL, HDF has two years to complete the Project or the FIL will be required to be returned to the City of Stamford's Inclusionary Housing Fund on a pro-rata basis.

On June 18, 2020, HDF applied for and was granted release of the FIL in the amount of \$1,099,462, which is reflected as refundable advances on contributions in the accompanying consolidated statement of financial position at June 30, 2020. Revenue from the FIL will be recognized on a pro rata basis as units are completed. Accordingly, no revenue has been recognized as of June 30, 2020.

During the year ended June 30, 2020, HDF entered into a second FIL agreement (Second Agreement). The Second Agreement provides FIL in the amount of \$2,056,000, which is to be used to purchase and construct a minimum of twenty-two affordable dwelling units. The units are deed restricted for sale and occupancy by families earning between 40-50% of AMI in perpetuity.

At the signing of the Second Agreement, the FIL was placed in an interest bearing escrow account. The Second Agreement calls for HDF to meet certain conditions for release of the FIL, plus interest earned. As of June 30, 2020, HDF has not applied for release of the FIL, and accordingly, no amounts have not been recognized on the statement of financial position or the statement of activities as of June 30, 2020.

Direct and indirect costs associated with the construction of the Project, in the amount of \$351,000 at June 30, 2020, have been capitalized to construction in progress.

During the year ended June 30, 2020, HDF received a grant in the amount of \$200,000. The grant was used for predevelopment costs of \$94,128 which have been expensed and recognized as grant revenue. The balance of \$105,872 is reflected as a refundable advance on grants as of June 30, 2020 (Note 11).

**NOTE 7 - LOANS RECEIVABLE**

Mortgage, Construction and Other Loans

HDF has made mortgage, construction and other loans which have been financed by the consortium lenders, grants, board-designated net assets, and temporarily restricted contributions. At June 30, 2020 and 2019, these loans were receivable primarily in monthly installments based principally upon 30-year amortization schedules, maturing from April 15, 2027 to June 30, 2051. Construction loans are generally repayable as units are sold, if the intention is not to convert to permanent mortgage loan status.

At June 30, 2020 and 2019, interest rates of the loans funded by the consortium lenders ranged from 3.88% to 7.50%.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 7 - LOANS RECEIVABLE (CONTINUED)**

Homebuyer Assistance Loans

Downpayment Assistance

HDF makes downpayment assistance loans primarily in the range of \$5,000 to \$20,000 to first-time low and moderate income homebuyers. These loans, including the Live Where You Work Program described below, amounting to \$13,212,959 and \$12,748,979 as of June 30, 2020 and 2019, respectively, are secured by second or third mortgages on the related residential properties located in southwestern Connecticut. For loans made through March 2000, interest accrues after year ten at 5% per annum until the property is sold, title is transferred, or the first mortgage is paid off, at which time both interest and principal are due. If the property is vacated by the borrower, or the property is sold, title is transferred, or the first mortgage is paid off within the first ten years, interest accrues from the date of the note, and both interest and principal are due at that time. For loans made April 2000 and subsequent, the loans bear no interest and are payable in full on the date the borrower transfers title, pays off the first mortgage, or vacates the property.

Smart Move I Homeownership Program (Smart Move I Program)

HDF's Smart Move I Program provided low-interest second mortgages of up to 20% of the purchase price to first-time homebuyers. Each pool of approximately \$250,000 to \$1,000,000 of loans were funded initially by HDF. HDF had entered into a Loan Participation Agreement (SM I Agreement), with fifteen participating banks who had committed an aggregate of \$59,625,000 to the Smart Move I Program. Under the terms of the Smart Move I Program and the SM I Agreement, the first mortgage was provided by one of the participating banks and the second mortgage was provided by HDF. Many of the Smart Move I Program participants also obtained a downpayment assistance loan from HDF, as described above.

HDF had purchased a portfolio of Smart Move I loans in the amount of \$574,143 from a loans receivable in the accompanying consolidated statements of financial position for the years ended June 30, 2020 and 2019, respectively. The Smart Move I Program ended June 30, 2014.

Smart Move II Homeownership Program (Smart Move II Program)

HDF's Smart Move II Program provides low-interest second mortgages of up to 20% of the purchase price to first-time homebuyers. Each pool of approximately \$250,000 to \$1,000,000 of loans are being funded initially by HDF. HDF has entered into a Loan Participation Agreement (SM II Agreement), currently with seventeen participating banks who have committed an aggregate of \$11,915,000 and HDF has committed \$1,000,000 to the Smart Move II Program as of July 1, 2019. Under the terms of the Smart Move II Program and the SM II Agreement, the first mortgage will be provided by one of the participating banks and the second mortgage will be provided by HDF. Many of the Smart Move II Program participants will also obtain a downpayment assistance loan from HDF, as described above.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 7 - LOANS RECEIVABLE (CONTINUED)**

Homebuyer Assistance Loans (continued)

Smart Move II Homeownership Program (Smart Move II Program) (continued)

HDF is assembling pools of second mortgage loans, which will be sold to the participating banks pro-rata to each bank's commitment. The loan pools are being serviced by a third-party service organization. HDF earns interest, net of servicing fees, on each loan pool before it is sold and a fee of \$750 to \$2,500 per second mortgage from the homebuyer to cover the costs of administering the Smart Move II Program.

HDF entered into a \$1,000,000 revolving line-of-credit agreement with a bank which is to be used for short-term Smart Move II Program funding requirements. As of June 30, 2020 and 2019, no advances were outstanding under this agreement, which is to expire June 30, 2021. The interest rate on this agreement is equal to the prime rate.

At June 30, 2020 and 2019 HDF's portion of Smart Move II Program loans in the amount of \$1,568,087 and \$1,469,958, respectively, are included in loans receivable in the accompanying consolidated statement of financial position.

At June 30, 2020 and 2019, closed loans for pools in process aggregating \$269,449 and \$327,813 respectively, which have been subsequently sold, are included in loans receivable in the accompanying consolidated statement of financial position.

Smart Move NY Homeownership Program (Smart Move NY Program)

HDF expanded into New York and assembled a pool to offer first time homebuyers a low interest, twenty-year second mortgage for up to 20% of the purchase price. HDF entered into a separate Loan Participation Agreement (SM NY Agreement) with five banks with a commitment of \$4,000,000 through July 30, 2020. An amendment extended the SM NY Agreement to July 31, 2021 with five banks for a new total commitment of \$3,093,305. As of June 30, 2020, the outstanding remaining commitment was \$647,518.

No pools were in process as of June 30, 2020. As of June 30, 2019, closed loans for pools in process aggregating \$25,600, which have been subsequently sold, are included in loans receivable in the accompanying consolidated statements of financial position.

Live Where You Work Program (Formerly Workforce Housing Downpayment Fund) (LWYW)

HDF receives a series of awards from the Housing Tax Credit Program administered by the Connecticut Housing Finance Authority (CHFA). The tax credits are then sold to a Connecticut corporation in exchange for a contribution to HDF equal to each award. With these funds, HDF has made zero-interest loans up to \$20,000 for income eligible clients purchasing properties in the community where they work. This program of assisting homebuyers to live where they work allows them to free up income for housing and other monthly expenses as a result of lower monthly personal transportation costs.

HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

(with comparative totals for 2019)

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**NOTE 7 - LOANS RECEIVABLE (CONTINUED)**

Homebuyer Assistance Loans (continued)

Live Where You Work Program (Formerly Workforce Housing Downpayment Fund) (LWYW)  
(continued)

During each of the years ended June 30, 2020 and 2019, awards in the amount of \$500,000 were received and sold for a \$500,000 contribution.

During the years ended June 30, 2020 and 2019, \$518,650 and \$315,469, respectively, were utilized for qualifying loans and unadvanced funds of \$912,729 and \$931,379 are reflected as net assets with donor restriction as of June 30, 2020 and 2019, respectively.

The balance of the loans funded with LWYW funds amounted to \$4,638,551 and \$4,306,502 as of June 30, 2020 and 2019, respectively, which are included within total downpayment assistance loans above.

Home buyer assistance loans at June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
Down Payment Assistance (Including LWYW Program)	\$13,212,959	\$12,748,979
Smart Move I	154,862	194,127
Smart Move II - HDF Portion	1,568,087	1,469,958
Smart Move II - Participant Portion	269,449	327,813
Smart Move NY - Participant Portion	-	25,600
	<u>                    </u>	<u>                    </u>
Total Home Buyer Assistance Loans	<u>\$15,205,357</u>	<u>\$14,766,477</u>

MacArthur Energy Efficient Loan

During the years ended June 30, 2020 and 2019, after consultation from the Connecticut Green Bank (a related entity (Note 17)), funds from the MacArthur Foundation loan were used to fund loans with aggregate balances of \$2,318,413 and \$976,826 with interest rates between 0% and 3.34% (Note 9). If there are any defaults in the loans, interest will increase ranging from 8.34% to 9.99%. The loans mature between August 1, 2020 and May 15, 2036, at which point outstanding principal and interest are due.

Connecticut Green Bank guarantees complete payment on all loans extended by HDF using funds from the MacArthur Foundation loan. Because of this guarantee, no allowance for loan losses has been established on this loan.

The loans are reflected as part of construction and other loans within HDF's loan portfolio.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 7 - LOANS RECEIVABLE (CONTINUED)**

Shore Up Loans

HDF's Shore Up Connecticut Loan Program was funded by a \$4,300,000 grant from the State of Connecticut Department of Housing (DOH). Loans were disbursed up to \$300,000 at an interest rate of 2.75% with no principal and interest payments to be made in the first year. Interest did not accrue during the first year. Loans are to be repaid over a fifteen-year term. In accordance with the grant agreement, the loans were assigned back to the DOH.

HDF services the loans on behalf of the DOH and each quarter must remit payments received during the previous quarter. HDF earns a service fee of \$20 each month, netted from monthly payments, and .39% of interest payments when they commence.

Wells Fargo LIFT Loans

HDF's Wells Fargo LIFT (LIFT) Loans were funded by a grant from Wells Fargo. Loans were disbursed in \$15,000 increments and are used for down payment assistance. The loans bear interest at 0% and are forgivable over a five year period. Loans are to be repaid if the property is sold, refinanced, title is transferred, or foreclosed on within the first five years at a prorated amount on the balance of the amount due.

During the year ended June 30, 2018, HDF concluded the LIFT program.

Loans outstanding at the years ended June 30, 2020 and 2019 amounted to \$939,898 and \$1,604,198, respectively. A 100% allowance for forgiveness of loans has been established for each of the years ended June 30, 2020 and 2019. The outstanding loans are not reflected in the accompanying consolidated financial statements since it is anticipated the loans will be forgiven within the five-year period.

CHFA and HDF Landlord Entrepreneurship and Affordability Pilot Program (LEAP)

This is a loan program in which CHFA holds the first mortgage position. HDF is responsible for underwriting the loans and all first mortgages are purchased back by CHFA after closing and are not serviced by HDF. During the years ended June 30, 2020 and 2019, \$517,600 and \$318,400, respectively, were underwritten by HDF and subsequently sold back to CFHA.



**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**(with comparative totals for 2019)**

**NOTE 7 - LOANS RECEIVABLE (CONTINUED)**

Aging Information

Aging information of past due loans by class of loans as of June 30 is summarized as follows:

	<u>Current</u>	<u>Past Due</u>		<u>Total</u>	<u>Total</u>
		<u>30-89</u>	<u>90 Days</u>		
		<u>Days</u>	<u>or More</u>		
<u>2020</u>					
Mortgage Loans	\$ 18,409,153	\$2,536,733	\$ -	\$2,536,733	\$20,945,886
Homebuyer Assistance Loans	15,158,987	25,661	20,709	46,370	15,205,357
Construction and Other Loans	<u>3,313,755</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,313,755</u>
Total	<u>\$ 36,881,895</u>	<u>\$2,562,394</u>	<u>\$ 20,709</u>	<u>\$2,583,103</u>	<u>\$39,464,998</u>
<u>2019</u>					
Mortgage Loans	\$ 22,276,020	\$ -	\$ -	\$ -	\$22,276,020
Homebuyer Assistance Loans	14,731,713	28,488	6,276	34,764	14,766,477
Construction and Other Loans	<u>1,048,461</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>1,048,461</u>
Total	<u>\$ 38,056,194</u>	<u>\$ 28,488</u>	<u>\$ 6,276</u>	<u>\$ 34,764</u>	<u>\$38,090,958</u>

Risk Rating System

HDF utilizes an internal loan risk rating system as a means of monitoring the credit quality of its loan portfolio and to identify problem and potential problem loans. Within the risk rating system, lower risk loans are classified as Pass or Watch, while problem and potential problem loans are classified as "Criticized Assets", which are identified in the risk rating system as High Risk, Doubtful, or Loss, when management has determined a loss is probable and the amount is quantifiable. Such loans are then partially or entirely charged off.

Loans identified as High Risk have deficiencies that are defined as weaknesses indicating there is a distinct possibility HDF could sustain some loss if the deficiencies are not corrected. Loans identified as Doubtful possess all the weaknesses in loans identified as High Risk with the added characteristic that conditions exist that suggest a high probability of loss. Loans identified as Loss possess all the weaknesses as Doubtful, with the added characteristic condition that there is a certainty of a loss. HDF updates its risk ratings on an ongoing basis as warranted. Loans classified as Non-Performing are also assigned a risk rating and would be classified as Criticized Assets.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

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**NOTE 7 - LOANS RECEIVABLE (CONTINUED)**

Risk Rating System (continued)

Credit quality indicators by class of loan as of June 30 are summarized as follows:

	<u>Mortgage Loans</u>	<u>Construction and Other Loans</u>	<u>Homebuyer Assistance Loans</u>	<u>Total</u>
<u>2020</u>				
Pass	\$ 18,414,781	\$ 3,313,755	\$ 15,205,357	\$ 36,933,893
Watch	2,531,105	-	-	2,531,105
Criticized Assets	-	-	-	-
Total	<u>\$ 20,945,886</u>	<u>\$ 3,313,755</u>	<u>\$ 15,205,357</u>	<u>\$ 39,464,998</u>
<u>2019</u>				
Pass	\$ 19,940,491	\$ 1,048,461	\$ 14,766,477	\$ 35,755,429
Watch	2,335,529	-	-	2,335,529
Criticized Assets	-	-	-	-
Total	<u>\$ 22,276,020</u>	<u>\$ 1,048,461</u>	<u>\$ 14,766,477</u>	<u>\$ 38,090,958</u>

All loans classified as Watch on the chart are current as to payments and are not delinquent at June 30, 2020 and 2019. The Watch classification often results from the borrower not submitting all annual financials on a timely basis.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

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**(with comparative totals for 2019)**

**NOTE 7 - LOANS RECEIVABLE (CONTINUED)**

HDF evaluates each loan in its portfolio for impairment and assigns an allowance for each loan based on the loan's inherent risk and other factors. Activity in the allowance for loan losses by portfolio class for the years ended June 30, consisted of the following:

	<u>Mortgage Loans</u>	<u>Construction And Other Loans</u>	<u>Homebuyer Assistance Loans</u>	<u>Total</u>
Balance - July 1, 2018	\$ 899,811	\$ 11,339	\$ 1,080,065	\$ 1,991,215
Provision	8,831	(8,831)	515,198	515,198
Loans Charged Off	<u>-</u>	<u>-</u>	<u>(76,112)</u>	<u>(76,112)</u>
Balance - June 30, 2019	908,642	2,508	1,519,151	2,430,301
Provision	152,885	60,892	82,992	296,769
Loans Charged Off	<u>-</u>	<u>-</u>	<u>(43,794)</u>	<u>(43,794)</u>
Balance - June 30, 2020	<u>\$1,061,527</u>	<u>\$ 63,400</u>	<u>\$ 1,558,349</u>	<u>\$ 2,683,276</u>

The allowance for loan losses and related portfolio balances, by loan portfolio segment and impairment methodology as of June 30, were as follows:

	<u>Individually Evaluated For Impairment</u>		<u>Collectively Evaluated For Impairment</u>		<u>Total</u>	
	<u>Portfolio</u>	<u>Allowance</u>	<u>Portfolio</u>	<u>Allowance</u>	<u>Portfolio</u>	<u>Allowance</u>
<u>2020</u>						
Mortgage Loans	\$20,945,886	\$ 1,061,527	\$ -	\$ -	\$ 20,945,886	\$ 1,061,527
Homebuyer Assistance Loans	-	-	15,205,357	1,558,349	15,205,357	1,558,349
Construction and Other Loans	<u>3,313,755</u>	<u>63,400</u>	<u>-</u>	<u>-</u>	<u>3,313,755</u>	<u>63,400</u>
Total	<u>\$24,259,641</u>	<u>\$ 1,124,927</u>	<u>\$ 15,205,357</u>	<u>\$ 1,558,349</u>	<u>\$ 39,464,998</u>	<u>\$ 2,683,276</u>
<u>2019</u>						
Mortgage Loans	\$22,276,020	\$ 908,642	\$ -	\$ -	\$ 22,276,020	\$ 908,642
Homebuyer Assistance Loans	-	-	14,766,477	1,519,151	14,766,477	1,519,151
Construction and Other Loans	<u>1,048,461</u>	<u>2,508</u>	<u>-</u>	<u>-</u>	<u>1,048,461</u>	<u>2,508</u>
Total	<u>\$23,324,481</u>	<u>\$ 911,150</u>	<u>\$ 14,766,477</u>	<u>\$ 1,519,151</u>	<u>\$ 38,090,958</u>	<u>\$ 2,430,301</u>

## HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

(with comparative totals for 2019)

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#### NOTE 7 - LOANS RECEIVABLE (CONTINUED)

Loans receivable, net at June 30 consisted of the following:

	<u>2020</u>	<u>2019</u>
Mortgage Loans	\$ 20,945,886	\$ 22,276,020
Homebuyer Assistance Loans	15,205,357	14,766,477
Construction and Other Loans	<u>3,313,755</u>	<u>1,048,461</u>
Total Loans Receivable	39,464,998	38,090,958
Less: Allowance for Loan Losses	2,683,276	2,430,301
Deferred Fees	<u>125,445</u>	<u>138,721</u>
Loans Receivable, Net	<u>\$ 36,656,277</u> (a)	<u>\$ 35,521,936</u> (b)

(a) Included in loans receivable, net at June 30, 2020 are loans, net of allowances, amounting to \$356,409 that are classified as part of assets restricted for long-term purposes

(b) Included in loans receivable, net at June 30, 2019 are loans, net of allowances, amounting to \$381,468 that are classified as part of assets restricted for long-term purposes

#### NOTE 8 - INVESTMENTS

U.S. GAAP established a definition and framework for measuring fair value, and disclosure about fair value measurements. Fair value is the exchange price that would be received for an asset or liability in an orderly transaction between market participants at the measurement date. The fair value hierarchy prioritizes the inputs used to measure fair value, requiring entities to maximize the use of markets or observable inputs. Observable inputs reflect market data obtained from independent sources, while unobservable inputs generally require significant management judgment. The three levels of the fair value hierarchy are as follows:

- Level 1 - Unadjusted quoted market prices for identical assets or liabilities in active markets the entity has the ability to access at the measurement date.
- Level 2 - Observable inputs other than quoted prices included in Level 1, such as:
  - Quoted prices for identical or similar assets or liabilities in active markets;
  - Quoted prices for identical or similar assets or liabilities in inactive markets; and
  - Other inputs that are observable for substantially the full term of the asset or liability, such as interest rates, yield curves, prepayment speeds and default rates or that can be corroborated by observable market data.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

**NOTE 8 - INVESTMENTS (CONTINUED)**

- Level 3 - Valuation techniques that require unobservable inputs which are supported by little or no market activity and that are significant to the fair value measurement of the asset or liability such as, pricing models, discounted cash flow methodologies and similar techniques that typically reflects management's own estimates and assumptions a market participant would use in pricing that asset or liability.

Investments at June 30 consisted of the following:

	2020		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized (Depreciation) Appreciation</u>
Custodial Receipts	\$ 1,330,000	\$ 1,321,707	\$ (8,293)
Mutual Funds	<u>177,155</u>	<u>379,590</u>	<u>202,435</u>
<b>Total</b>	<b><u>\$ 1,507,155</u></b>	<b><u>\$ 1,701,297</u></b>	<b><u>\$ 194,142</u></b>
	2019		
	<u>Cost</u>	<u>Fair Value</u>	<u>Unrealized (Depreciation) Appreciation</u>
Certificates of Deposit	\$ 117,503	\$ 117,503	\$ -
Custodial Receipts	1,330,000	1,288,231	(41,769)
Mutual Funds	<u>291,516</u>	<u>473,537</u>	<u>182,021</u>
<b>Total</b>	<b><u>\$ 1,739,019</u></b>	<b><u>\$ 1,879,271</u></b>	<b><u>\$ 140,252</u></b>

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

**NOTE 8 - INVESTMENTS (CONTINUED)**

The following are the classifications of investments measured at fair value as of June 30, 2020 and 2019, using quoted prices in active markets for identical assets (Level 1); other significant inputs (Level 2); and significant unobservable inputs (Level 3).

	2020		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Custodial Receipts	\$ -	\$ 1,321,707	\$ 1,321,707
Mutual Funds	<u>379,590</u>	<u>-</u>	<u>379,590</u>
<b>Total</b>	<b><u>\$ 379,590</u></b>	<b><u>\$ 1,321,707</u></b>	<b><u>\$ 1,701,297</u></b>
	2019		
	<u>Level 1</u>	<u>Level 2</u>	<u>Total</u>
Certificates of Deposits	\$ 117,503	\$ -	\$ 117,503
Custodial Receipts	-	1,288,231	1,288,231
Mutual Funds	<u>473,537</u>	<u>-</u>	<u>473,537</u>
<b>Total</b>	<b><u>\$ 591,040</u></b>	<b><u>\$ 1,288,231</u></b>	<b><u>\$ 1,879,271</u></b>

Custodial receipts are not traded in an active market. The fair value is derived from a third-party pricing source using the value at the close of business for identical or similar investments. Adjustments are made through the reporting date based upon available market observable data.

There were no Level 3 investments at June 30, 2020 and 2019.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

**NOTE 8 - INVESTMENTS (CONTINUED)**

Investments are reflected in the accompanying financial statements at June 30 as follows:

	<u>2020</u>	<u>2019</u>
Unrestricted Investments	\$ -	\$ 117,503
Investment in Custodial Receipts	1,321,707	1,288,231
Investment Held for		
Deferred Comp Plan	81,507	196,175
Assets Restricted for		
Long-Term Investment		
Purposes	<u>298,083</u>	<u>277,362</u>
Total	<u>\$ 1,701,297</u>	<u>\$ 1,879,271</u>

Unrestricted Investments

Unrestricted investments consists of certificates of deposit with original maturities of six months to five years and annual interest rates of .65% to 1.24%.

Investments in Custodial Receipts

Investments in custodial receipts consists of custodial receipts purchased at par with a cost of \$1,330,000 with a coupon rate of 3.55% and matures on January 1, 2038. Interest is paid every six months each January 1 and July 1. Beginning July 1, 2032, a portion of the investment will be returned to HDF under the following schedule:

July 1, 2032	\$ 95,000
January 1, 2033	95,000
July 1, 2033	95,000
January 1, 2034	100,000
July 1, 2034	105,000
January 1, 2035	105,000
July 1, 2035	115,000
January 1, 2036	115,000
July 1, 2036	120,000
January 1, 2037	125,000
July 1, 2037	130,000
January 1, 2038	<u>130,000</u>
Total	<u>\$ 1,330,000</u>

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 9 - NOTES PAYABLE**

Consortium Banks

HDF has entered into a Master Loan Agreement (ML Agreement) with certain entities, principally banks (Consortium Lenders) which has been modified several times. Under the terms of the ML Agreement, as modified, the Consortium Lenders have agreed to provide financing to HDF to be used to make loans for purposes of creating housing opportunities for low and moderate income families. The total available credit line and interest rate may be modified from time-to-time. The ML Agreement expires on June 30, 2021.

At June 30, 2020, the total commitment was \$26,425,000 from twelve Consortium Lenders.

Consortium bank loans outstanding at June 30, 2020 of \$18,810,465 are at an interest rate of 2.00%, of which \$15,448,393 was payable to eleven Consortium Lenders and \$3,362,072 was payable to ten Consortium Lenders which have not committed to make additional loans.

Consortium Bank loans outstanding at June 30, 2019 of \$19,730,181 was at an interest rate of 2.00%, of which \$15,353,752 was payable to eleven Consortium Lenders and \$3,596,686 was payable to ten Consortium Lenders which have not committed to make additional loans.

Other terms of the ML Agreement provide for a collateral assignment in favor of the Consortium Lenders in case of default and provide that the Consortium Lenders bear the ultimate risk if loans made by HDF with the consortium funds become uncollectible. HDF is required to make interest and principal repayments equal to the total principal repaid by HDF's borrowers, loaned from consortium funds, during the preceding calendar quarter, due 30 days after the end of each calendar quarter. For the period April 1, 2020 to June 30, 2020, approximately \$118,100 of scheduled and advance principal repayments by HDF's borrowers have been received.

MacArthur Foundation

HDF entered into a \$5,000,000 loan agreement with the MacArthur Foundation at a rate of 1% for a fifteen year term, maturing February 2031. Interest accrues and is paid quarterly at a rate of 3% on any outstanding balances after the date of maturity. HDF is also required to maintain certain net asset covenants as part of the loan agreement. The outstanding balance on the loan was \$5,000,000 at June 30, 2020 and 2019.

The loan is to be used to finance clean energy and energy related health and safety improvements to multi-family affordable rent housing properties. During the year ended June 30, 2020, seven loans in the amount of \$2,320,695 have been issued and are outstanding and as of June 30, 2019, six loans in the amount of \$976,826 were outstanding (Note 7).

During the year ended June 30, 2017, funds were used to purchase Housing Authority of the Town of Manchester Lease Revenue Custodial Receipts Series 2016 with a cost of \$1,330,000 (Note 8).



**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 9 - NOTES PAYABLE (CONTINUED)**

MacArthur Foundation (continued)

Repayment terms on the note once all proceeds are received are as follows:

2/4/2028	\$ 750,000
2/4/2029	750,000
2/4/2030	1,500,000
2/4/2031	<u>2,000,000</u>
Total	<u>\$ 5,000,000</u>

Interest expense on the loan was \$37,500 and \$50,000 for the years ended June 30, 2020 and 2019, respectively.

**NOTE 10 - PAYROLL PROTECTION PROGRAM**

On March 27, 2020, the Corona Virus Aid, Relief, and Economic Securities Act (CARES Act) was signed into law. The CARES Act created a new program administered by the Small Business Administration (SBA) called the Payroll Protection Program (PPP). The PPP provides loans to qualifying small businesses for up to 2.5 times the average monthly payroll expenses of the qualifying business. During the year ended June 30, 2020, HDF received loan proceeds of \$292,900 under the PPP. The loan and accrued interest will be forgivable after twenty-four weeks as long as HDF used the proceeds for eligible purposes, including payroll, benefits, rent and utilities, and maintains payroll levels. The amount of loan forgiveness will be reduced if HDF terminates employees or reduces salaries during the twenty-four week period unless HDF meets certain conditions. The unforgiven portion of the loan is payable over two years at an interest rate of 1%, with deferred payments for the first six months.

The PPP represents, in substance, a grant that is expected to be forgiven and HDF has accounted for the proceeds from the PPP in accordance with FASB ASC 958-605: *Not-for-Profit Entities - Revenue Recognition* (ASC 958-605). Under ASC 958-605, proceeds from the PPP are conditional and are initially recorded as a refundable advance. The refundable advance is then reduced and income is recognized once the conditions of release have been substantially met or explicitly waived. During the year ended June 30, 2020, HDF has estimated that they have incurred \$261,554 in qualifying expenses and determined it has met the requirements for forgiveness, and has recognized \$261,554 in grant revenue. A refundable advance balance of \$31,346 remains as of June 30, 2020, which is included in refundable advances on grants in the consolidated statement of financial position. Management believes they will incur qualifying expenses before the expiration of the twenty-four week period, and will qualify for the full amount of the PPP loan to be forgiven.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

**NOTE 11 - GRANTS**

Refundable advances on grants at June 30 and grant revenues for the years ended June 30 consists of the following:

	Refundable Advances		Grant Revenues	
	on Grants			
	2020	2019	2020	2019
American Dream Down Payment Initiative	\$ -	\$ 25,000	\$ -	\$ -
Citi - South End Project Grant (Note 6)	105,872	-	94,128	-
Citi - Foreclosure Grant	100,000	-	-	-
NeighborWorks America (NWA Grants)	-	-	522,170	500,500
NeighborWorks Project Reinvest	12,074	252,074	240,000	2,556,000
Department of Housing, Downpayment Assistance	-	-	-	689,395
Payroll Protection Program	31,346	-	261,554	-
Wells Fargo Lift	-	-	24,000	36,000
Other	65,000	-	7,513	3,403
<b>Total</b>	<b>\$ 314,292</b>	<b>\$ 277,074</b>	<b>\$ 1,149,365</b>	<b>\$ 3,785,298</b>

During the year ended June 30, 2019, HDF refunded \$322,000 of the DOH Landlord Entrepreneurship and Affordability Program Grant back to the DOH.

**NOTE 12 - AGENCY ASSETS AND LIABILITIES**

HDF entered into a Construction to Permanent Loan Participation Agreement with the CHFA to make a first mortgage loan in the maximum amount of \$16,130,000 to the developers of the Bijou Square Project (Bijou Square) in Bridgeport, Connecticut. HDF's share of the loan is \$1,930,000, which was advanced in full utilizing prior-period HTF grant funds. Bijou Square was completed during the year ended June 30, 2013, and HDF's construction loan converted to a permanent mortgage loan in May 2013. A loan balance of \$1,670,996 and \$1,699,276 is reflected within mortgage loans as of June 30, 2020 and 2019, respectively. HDF is servicing the loan, and the loan advances made by CHFA of \$12,565,291 and \$12,765,322 as of June 30, 2020 and 2019, respectively, are reflected as agency assets and liabilities.

During the year ended June 30, 2019, HDF entered an agreement to act as the fiscal agent on behalf of the Corporation for Supportive Housing (CSH).

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 12 - AGENCY ASSETS AND LIABILITIES (CONTINUED)**

As of June 30, agency assets and liabilities consist of the following:

	<u>2020</u>	<u>2019</u>
Loan Receivable from Developer of the Bijou Square Project, Funded by Participation of CHFA	\$ 12,565,291	\$ 12,765,322
Fiscal Agent, Corporation for Supportive Housing	<u>13,270</u>	<u>74,206</u>
Total	<u>\$ 12,578,561</u>	<u>\$ 12,839,528</u>

**NOTE 13 - NET ASSETS**

Net Assets Without Donor Restriction - Board Designated

As of June 30, the Board of Directors has designated the following amounts for the purposes indicated:

	<u>2020</u>	<u>2019</u>
Revolving Loan Fund - Homebuyer Assistance Loans - Funded by Designated Unrestricted Funds	\$ 13,312,183	\$ 12,894,513
Revolving Loan Fund - Flexible Funding for Multi-Family Loans	<u>2,855,811</u>	<u>3,549,906</u>
Total	<u>\$ 16,167,994</u>	<u>\$ 16,444,419</u>

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

**NOTE 13 - NET ASSETS (CONTINUED)**

Net Assets With Donor Restriction

At June 30, net assets with donor restriction are restricted for the following purposes or period:

	<u>2020</u>	<u>2019</u>
<u>Purpose Restricted</u>		
Live Where You Work Program	\$ 912,729	\$ 931,379
Revolving Loan Fund in 2004	36,000	36,000
Revolving Loan Fund - Downpayment Assistance Loans in 2004	15,000	15,000
CDFI - F/A Down Payment Assistance	-	214,873
CDFI - F/A Loan Loss Reserve	-	108,381
LCB Funding for Wesport Properties	<u>84,394</u>	<u>118,263</u>
Sub-Total - Purpose Restricted	1,048,123	1,423,896
 <u>Time Restricted</u>		
Future Value of Leasehold, Net of Accumulated Amortization	<u>389,478</u>	<u>403,185</u>
 Total Purpose or Time Restricted	 <u>1,437,601</u>	 <u>1,827,081</u>
 <u>Perpetually Restricted</u>		
Stamford Development Corporation Endowment Fund	428,755	428,755
NeighborWorks America (NWA)	<u>414,344</u>	<u>414,344</u>
 Total Perpetually Restricted	 <u>843,099</u>	 <u>843,099</u>
 Total Net Assets With Donor Restriction	 <u><u>\$ 2,280,700</u></u>	 <u><u>\$ 2,670,180</u></u>

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 13 - NET ASSETS (CONTINUED)**

Net Assets With Donor Restriction (continued)

Net assets released from donor restrictions by incurring expenses satisfying the restricted purposes, by occurrence of other events, by passage of time, or by permission of the donor for the years ended June 30 were as follows:

	<u>2020</u>	<u>2019</u>
<u>Satisfaction of Purpose Restrictions</u>		
Live Where You Work Program	\$ 18,650	\$ -
CDFI - F/A Down Payment Assistance	214,873	68,000
CDFI - F/A Loan Loss Reserve	108,381	45,908
LCB Funding for Westport Properties	<u>33,869</u>	<u>-</u>
	375,773	113,908
<u>Expiration of Time Restrictions</u>		
Amortization of Leasehold	13,707	13,706
<u>Releases</u>		
NeighborWorks America (NWA)	<u>-</u>	<u>177,576</u>
Total	<u>\$ 389,480</u>	<u>\$ 305,190</u>

Net Assets with Donor Restriction - Perpetually Restricted

Endowment

HDF had accepted an endowment gift of \$428,755 to be known as The Stamford Development Corporation Endowment Fund (Fund). The net income from the Fund is available to be used to help meet the operating expenses of HDF in its efforts to assist affordable housing within the City of Stamford, Connecticut (Stamford). In addition, no more than 25% of the principal of the Fund may be advanced by HDF as short-term seed money loans to qualified developers to assist them in their efforts to create affordable housing in Stamford. No funds have been loaned to date. The assets of the Fund are classified as assets restricted for long-term purposes in the accompanying consolidated financial statements.

During the years ended June 30, 2020 and 2019, the Fund recognized net investment income amounting to \$25,554 and \$26,088, respectively. This income was reflected as approved spending from endowment total return during each year.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 13 - NET ASSETS (CONTINUED)**

Net Assets with Donor Restriction - Perpetually Restricted (continued)

NeighborWorks America (NWA)

HDF had received permanently restricted capital grant funds from NWA. These funds are to be used for HDF's LEAP Revolving Loan Fund to build assets for HDF and the communities in which HDF operates. It is permissible for HDF to also use the funds as a permanent investment in real property. Additionally, HDF can request NWA to release funds to be used currently to further NWA's mission. During the years ended June 30, 2020 and 2019, \$356,409 and \$381,468, respectively, in eligible loans have been disbursed and are reflected as part of net assets with donor restriction - perpetually restricted. During the year ended June 30, 2019, NWA permitted the release of the capital grant funds in the amount of \$177,576 to net assets without donor restriction, for the purpose of furthering HDF's mission.

U.S. GAAP requires certain provisions relating to "Endowments of Not-for-Profit Organizations: Net Asset Classification of Funds Subject to an Enacted Version of the Uniform Prudent Management of Institution Funds Act (UPMIFA), and Enhanced Disclosures for All Endowment Funds". The provisions improve disclosures about an organization's endowment funds to enable users of the financial statements to understand the net asset classifications, net asset composition, changes in net asset composition, spending policy and related investment policy of an organization's endowment funds.

The Board of Directors of HDF has interpreted the UPMIFA as requiring the preservation of the fair value of the original gift as of the gift date of the endowment contributions unless there are explicit donor stipulations to the contrary. None of HDF's endowment contributions have any such stipulations. As a result, HDF retains in perpetuity the original value of initial and subsequent gift amounts reduced by donor-approved releases of perpetually restricted funds. The total return on perpetually restricted net assets are donor restricted until appropriated for expenditure.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

**NOTE 13 - NET ASSETS (CONTINUED)**

Net Assets with Donor Restriction - Perpetually Restricted (continued)

Activity in HDF's net assets with donor restriction - perpetually restricted for the years ended June 30, 2020 and 2019 was as follows:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Balance - July 1, 2018	\$ -	\$ 1,020,675	\$ 1,020,675
Net Investment Income Including Unrealized Appreciation of Investments	26,088	-	26,088
NWA Capital Grant Released by NWA	-	(177,576)	(177,576)
Approved Spending from Endowment Total Return	<u>(26,088)</u>	<u>-</u>	<u>(26,088)</u>
Balance - June 30, 2019	-	843,099	843,099
Net Investment Income Including Unrealized Appreciation of Investments	25,554	-	25,554
Approved Spending from Endowment Total Return	<u>(25,554)</u>	<u>-</u>	<u>(25,554)</u>
Balance - June 30, 2020	<u>\$ -</u>	<u>\$ 843,099</u>	<u>\$ 843,099</u>

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 14 - REVENUES FROM CONTRACTS WITH CUSTOMERS**

For the years ended June 30, 2020 and 2019, revenues recognized for contracts and fees under Topic 606 for services provided at a point in time were \$451,416 and \$667,074, respectively.

HDF's revenues, results of activities, and results of cash flows are affected by a wide variety of factors, including the general economic conditions, the geographic region of clients, and the type of lending contract.

**NOTE 15 - EMPLOYEE BENEFIT PLANS**

Retirement Plan

HDF has a 401(k) retirement plan (401(k)) covering substantially all employees. Eligible employees may elect to defer a percentage of their compensation up to annual IRS limitations. At its discretion, HDF may elect to make a matching contribution, which is based on a percentage of each employee's contribution, at the end of each plan year. During the years ended June 30, 2020 and 2019, no employer match was made.

The 401(k) also provides for a safe harbor contribution, whereby a required contribution will be made based on 3% of each eligible employee's compensation. The safe harbor contribution will be reported to each employee on an annual basis. A provision for the safe harbor contribution for the years ended June 30, 2020 and 2019 was \$53,337 and \$72,229, respectively.

Deferred Compensation Plan

HDF has a deferred compensation plan (DC Plan) for the benefit of its President/CEO. Contributions are discretionary by the Board of Directors. Provisions of \$24,926 and \$24,563 were charged to operations for the years ended June 30, 2020 and 2019, respectively.

During the years ended June 30, 2020 and 2019, HDF made a distribution to the President/CEO in the amount of \$144,792 and \$142,800, respectively.

The DC Plan is funded by contributions to a trust, which cannot be expended except for payment of benefits to the President/CEO, but is available for general creditors of HDF in the event of insolvency. Income of the trust is reinvested as additional benefits, and any unrealized losses reduce the value of the DC Plan assets. The assets of the trust are invested in mutual funds held at the trust department of a bank. The DC Plan earned net earnings of \$5,198 and \$15,919 for the years ended June 30, 2020 and 2019, respectively, with a corresponding increase in the deferred compensation obligation.



HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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(with comparative totals for 2019)

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**NOTE 16 - OCCUPANCY ARRANGEMENTS**

Stamford Office

See Note 2 for description of leasehold interest.

Danbury Office

A lease with a two-year term through September 2018, which has been extended for an additional two-year term through September 2020, and continues to provide minimal annual lease payments of \$18,900. HDF closed the Danbury office in June 2020.

Rent expense charged to operations amounted to \$18,900 for each of the years ended June 30, 2020 and 2019.

Bridgeport Office

A lease for a seven-year, five-month term through December 2023. The minimum annual lease payments are as follows:

January 2018 - December 2018	\$ 39,990
January 2019 - December 2019	\$ 41,097
January 2020 - December 2020	\$ 42,336
January 2021 - December 2021	\$ 43,596
January 2022 - December 2022	\$ 44,898
January 2023 - December 2023	\$ 46,245

Rent expense charged to operations amounted to \$41,718 and \$40,499 for the years ended June 30, 2020 and 2019, respectively.

Estimated minimum lease payments are as follows:

Years Ending June 30,

2021	\$ 43,000
2022	44,200
2023	45,600
2024	<u>23,100</u>
Total	<u>\$ 155,900</u>

## HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

### NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

JUNE 30, 2020

(with comparative totals for 2019)

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#### NOTE 17 - RELATED PARTY TRANSACTIONS

##### Legal Fees

A member of the board provided pro bono legal services with a value of \$78,531 and \$5,500 for the years ended June 30, 2020 and 2019, respectively. This has been reflected on the consolidated statement of financial position as in-kind revenue and expenses.

##### People's United Bank

People's United Bank (People's) is a Consortium Lender under the Master Loan agreement. A senior official of People's is also a member of HDF's Board of Directors. People's has a total commitment of \$4,000,000 under the agreement. The outstanding balance due to People's at June 30, 2020 and 2019 is \$2,617,470 and \$2,611,564, respectively.

##### First County Bank

First County Bank (FCB) is a Consortium Lender under the Master Loan agreement. A senior official of FCB is also a member of HDF's Board of Directors. FCB has a total commitment of \$3,500,000 under the agreement. The outstanding balance due to FCB at June 30, 2020 and 2019 is \$2,268,693 and \$2,240,608, respectively.

##### Webster Bank

Webster Bank (Webster) is a Consortium Lender under the Master Loan agreement. A senior official of Webster is also a member of HDF's Board of Directors. Webster has a total commitment of \$3,000,000 under the agreement. The outstanding balance due to Webster at June 30, 2020 and 2019 is \$1,703,767 and \$1,631,767, respectively.

##### CitiBank

CitiBank is a Consortium Lender under the Master Loan agreement. A senior official of CitiBank is also a member of HDF's Board of Directors. CitiBank does not have any future commitments under the agreement. The outstanding balance due to CitiBank at June 30, 2020 and 2019 is \$559,779 and \$579,780, respectively.

##### TD Bank

TD Bank is a Consortium Lender under the Master Loan agreement. A senior official of TD Bank is also a member of HDF's Board of Directors. TD Bank does not have any future commitments under the agreement. The outstanding balance due to TD Bank at June 30, 2020 and 2019 is \$1,023,996 and \$1,049,893, respectively.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 17 - RELATED PARTY TRANSACTIONS (CONTINUED)**

Connecticut Green Bank

Connecticut Green Bank (CGB) is the guarantor on the \$5,000,000 MacArthur Foundation note payable. A senior official from CGB is also on HDF's Board of Directors. CGB also pays HDF service fees for administering the loan up to \$125,000 per year. For the years ended June 30, 2020 and 2019, service fee income from CGB amounted to \$79,838 and \$90,000, respectively.

HDF and CGB amended their agreement to include a Put Option on the Housing Authority of the Town of Manchester Lease Revenue Custodial Receipts Series 2016 (Receipts). HDF shall have the right, and CGB will have the obligation, to acquire any outstanding Receipts at par value. HDF is entitled to issue the Put Option any time prior to the final MacArthur Foundation note payable payment but no earlier than 1) ninety days prior to the first required amortization of principal under the loans, or 2) the declaration of an event of default by the MacArthur Foundation. In order to mitigate CGB's exposure under its guarantee obligations, all interest earned on the receipts in excess of any interest payable shall be set aside in a sinking fund established by HDF.

Lease

HDF has entered into an agreement to rent space in Bridgeport, Connecticut, from a member of the Board of Directors. Management is of the opinion that the lease is at fair value (Note 16).

**NOTE 18 - CONTINGENCIES**

Grants and Contracts

Under the terms and conditions of grants and contracts, expenditures and compliance with the provision of the funding are subject to audit by the funder. Management of HDF does not anticipate that there would be any changes as a result of an audit.

COVID-19

The COVID-19 outbreak is disrupting supply chains and affecting production and sales across a range of industries. The extent of the impact of COVID-19 on HDF's operations and financial performance will depend on certain developments, including the duration and spread of the outbreak, current and potential borrowers, employees, and vendors, all of which are uncertain and cannot be predicted. Management is carefully monitoring the situation and evaluating operations. At this time, the extent which COVID-19 may impact HDF's financial condition or results of operations is uncertain, and no adjustments have been made to the consolidated financial statements as a result of this uncertainty.

**HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

**JUNE 30, 2020**

**(with comparative totals for 2019)**

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**NOTE 19 - PRIOR YEAR INFORMATION**

The financial statements include certain prior year consolidated summarized comparative information at June 30, 2019 and for the year ended June 30, 2019 in total but not by net asset class. Such information does not include sufficient detail to constitute a presentation in conformity with U.S. GAAP. Accordingly, such information should be read in conjunction with HDF's consolidated financial statements at June 30, 2019 and for the year then ended, from which the summarized information was derived.

**NOTE 20 - SUBSEQUENT EVENTS**

HDF Community Land Trust, Inc.

Subsequent to June 30, 2020, HDF Community Land Trust, Inc. (Trust) was incorporated. The purpose of the Trust is to provide housing opportunities to low and moderate income households in an array of urban, suburban, and rural communities; acquire and develop property for the Project (Note 6); and to develop a non-profit sales program for the sale of units developed for the Project. The Trust has applied for, but has not yet received, recognition as a 501(c)(3) charitable organization.

The majority of the Board of Directors of the Trust are also on the Board of Directors for HDF. Therefore, the activities of the Trust will be consolidated into the financial reporting of HDF.

Sale of Rental Property

Subsequent to June 30, 2020, HDF entered into a contract to sell one of its rental properties for \$380,000. The net book value of the rental property, which includes a building and land, was \$382,120 at June 30, 2020.

## HOUSING DEVELOPMENT FUND, INC. AND ITS SUBSIDIARY

**SCHEDULE OF GROSS LOANS RECEIVABLE, BALANCE ON SERVICED LOANS,  
AND LOANS ORIGINATED AND SOLD  
YEAR ENDED JUNE 30, 2020  
(with comparative totals for 2019)**

	<u>2020</u>	<u>2019</u>
<u>Gross Loans Receivable on Statement Financial Position</u>		
Downpayment Assistance (Including LWYW Program)	\$ 13,212,959	\$ 12,748,979
Smart Move I	154,862	194,127
Smart Move II - HDF Portion	1,568,087	1,469,958
Smart Move II - Participant Portion	269,449	327,813
Smart Move NY - Participant Portion	-	25,600
Mortgage Loans	20,945,886	22,276,020
Construction and Other Loans	3,313,755	1,048,461
Gross Loans Receivable	<u>39,464,998</u>	<u>38,090,958</u>
<u>Agency Assets</u>		
Loan Receivable from Developer of the Bijou Square Project, Funded by Participation of CHFA	<u>12,565,291</u>	<u>12,765,322</u>
Total Loan Receivables on Statement of Financial Position	<u>52,030,289</u>	<u>50,856,280</u>
<u>Gross Loans Receivable Not on Statement of Financial Position</u>		
Wells Fargo Lift Loans	<u>939,898</u>	<u>1,604,198</u>
Total Gross Loans Receivable	<u>52,970,187</u>	<u>52,460,478</u>
<u>Gross Balance, Net of HDF Portion, of Serviced Loans</u>		
Smart Move I (Pools 1-124 through June 30, 2014)	17,857,185	21,840,761
Smart Move II (July 1, 2014 - June 30, 2018)	20,060,598	19,186,041
Smart Move - New York	2,445,787	2,425,675
Shore Up Loans (Assigned to State of CT)	<u>1,207,240</u>	<u>1,509,228</u>
Total Gross Balance on Serviced Loans	<u>41,570,810</u>	<u>44,961,705</u>
Total Gross Loan Receivable and Balance on Serviced Loans as of June 30	94,540,997	97,422,183
Loans Originated and Sold During the Year Ended June 30	<u>517,600</u>	<u>318,400</u>
Total	<u>\$ 95,058,597</u>	<u>\$ 97,740,583</u>

See independent accountant's report.