HUMAN RESOURCES AGENCY OF NEW BRITAIN, INC.

Independent Auditors' Report
Financial Statements

June 30, 2019 and 2018

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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Human Resources Agency of New Britain, Inc.
New Britain, Connecticut

Report on the Financial Statements

We have audited the accompanying financial statements of Human Resources Agency of New Britain, Inc. (the "Agency"), which comprise the statements of financial position as of June 30, 2019 and 2018, and the related statements of activities and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Agency as of June 30, 2019 and 2018, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Whittlesey PC

Hartford, Connecticut
October 28, 2019

HUMAN RESOURCES AGENCY OF NEW BRITAIN, INC.

Statements of Financial Position

June 30, 2019 and 2018

	2019	2018
ASSETS		
Current Assets		
Cash and cash equivalents	$ 550,745	$ 1,020,424
Grants receivable	834,162	726,219
Other receivables	133,558	195,665
Debt service funding held by state	376,938	375,462
Prepaid expenses	93,987	56,419
Total current assets	1,989,390	2,374,189
Property and Equipment		
Land and buildings	15,381,597	15,349,527
Leasehold improvements	645,967	645,967
Equipment	1,211,012	1,165,558
Vehicles	143,327	143,327
Construction in progress	45,736	5,200
	17,427,639	17,309,579
Less accumulated depreciation	5,245,704	4,737,932
Net property and equipment	12,181,935	12,571,647
Other Assets		
Restricted cash	128,437	125,800
Total Assets	$ 14,299,762	$ 15,071,636

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

HUMAN RESOURCES AGENCY OF NEW BRITAIN, INC.

Statements of Financial Position (continued)

June 30, 2019 and 2018

LIABILITIES AND NET ASSETS	2019	2018
Current Liabilities		
Current portion of bonds payable	$ 240,000	$ 249,849
Current portion of notes payable	189,089	69,772
Accounts payable and accrued expenses	329,345	440,582
Accrued payroll and vacations	467,239	519,983
Accrued interest payable	136,938	140,463
Due to funding source	16,625	21,818
Deferred revenue	327,027	605,552
Total current liabilities	1,706,263	2,048,019
Long-Term Liabilities		
Bonds payable, net	6,279,138	6,507,044
Notes payable, net	935,273	1,070,695
Total long-term liabilities	7,214,411	7,577,739
Total liabilities	8,920,674	9,625,758
Net Assets		
Without donor restrictions	5,335,570	5,402,360
With donor restrictions	43,518	43,518
Total net assets	5,379,088	5,445,878
Total Liabilities and Net Assets	$ 14,299,762	$ 15,071,636

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

HUMAN RESOURCES AGENCY OF NEW BRITAIN, INC.

Statements of Activities

June 30, 2019 and 2018

		2019		2018
Changes in Net Assets Without Donor Restrictions				
Revenues, gains and other support:				
Government grants	$	13,543,163	$	13,926,576
Program income		1,178,621		1,136,424
Nongovernmental grants and contributions		803,107		749,399
Bond debt service funding		430,627		432,345
Rental income		142,113		171,970
Contributed services		132,675		111,473
Other income		12,848		63,240
Total revenues, gains and other support		16,243,154		16,591,427
Expenses				
Salaries and benefits		7,849,044		9,153,767
Direct client assistance		5,056,727		4,173,925
Professional and contracted services		1,220,518		1,466,581
Occupancy		916,967		931,910
Depreciation		507,771		521,774
Interest		348,337		348,976
Materials and supplies		212,659		254,518
Other		197,921		221,390
Total Expenses		16,309,944		17,072,841
Change in Net Assets Without Donor Restrictions		(66,790)		(481,414)
Net assets - beginning of year		5,445,878		5,927,292
Net assets - end of year	$	5,379,088	$	5,445,878

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

HUMAN RESOURCES AGENCY OF NEW BRITAIN, INC.

Statements of Cash Flows

June 30, 2019 and 2018

	2019	2018
Cash flows from operating activites		
Change in net assets	$ (66,790)	$ (481,414)
Adjustments to reconcile change in net assets to net change in cash from operating activities:		
Depreciation	507,772	521,774
Amortization	12,093	12,093
(Increase) decrease in operating assets:		
Grants receivable	(107,943)	726,956
Other receivables	62,107	(69,739)
Debt service funding held by state	(1,476)	(1,550)
Prepaid expenses	(37,568)	24,353
Restricted cash	-	-
Increase (decrease) in operating liabilities:		
Accounts payable and accrued expenses	(111,237)	(233,498)
Accrued payroll and vacations	(52,744)	(226,395)
Accrued interest payable	(3,525)	(3,450)
Due to funding source	(5,193)	19,908
Deferred revenue	(278,525)	173,947
Net change in cash from operating activities	(83,029)	462,985
Cash flows from investing activities		
Purchases or improvement of property and equipment	(118,060)	(72,139)
Net change in cash from investing activities	(118,060)	(72,139)
Cash flows from financing activities		
Proceeeds from note payable	949,954	-
Principal repayments on bonds and notes payable	(1,215,907)	(318,808)
Net change in cash from financing activities	(265,953)	(318,808)
Net change in cash and cash equivalents	(467,042)	72,038
Cash and equivalents - beginning of year	1,146,224	1,074,186
Cash and equivalents - end of year	$ 679,182	$ 1,146,224
Cash paid during the year for		
Interest	$ 344,812	$ 345,526

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

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Human Resources Agency of New Britain, Inc. (the "Agency"), a community action agency, was established in 1964 as a Connecticut nonstock, nonprofit corporation whose purpose is to provide the economically disadvantaged in the greater New Britain, Connecticut, area with various social programs and services including food, training, education, child care, shelter and energy-related assistance.

Basis of Accounting and Presentation

The financial statements of the Agency have been prepared in accordance with U.S. generally accepted accounting principles ("US GAAP"), which require the Agency to report information regarding its financial position and activities according to the following net asset classifications:

- Net assets without donor restrictions:
  Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Agency. These net assets may be used at the discretion of the Agency's management and the board of directors.

- Net assets with donor restrictions:
  Net assets subject to stipulations imposed by donors and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Agency or by the passage of time. Other donor restrictions are perpetual in nature, whereby the donor has stipulated the funds be maintained in perpetuity.

Use of Estimates

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

Cash and Cash Equivalents

The Agency considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents, exclusive of restricted cash. Restricted cash consists of cash restricted by the Connecticut Health and Educational Facilities Authority (CHEFA) bond indenture for property renewal and replacements.

Property and Equipment

Property and equipment acquisitions and improvements thereon that exceed $2,500 are capitalized at cost and depreciated on the straight-line basis over their estimated useful lives. Leasehold improvements are amortized over the life of the improvement or the remaining lease term, whichever is shorter. Repairs and maintenance are charged to expense as incurred.

Funding sources retain a reversionary right to certain property acquired with grant funds, although no grant programs are expected to end prior to the end of the respective properties' required useful lives that would require return of such assets. In connection with two State of Connecticut grants in the amounts of $950,000 and $345,000, for which the Agency received the final payments on 12/23/09 and 9/10/15, respectively, forgivable liens have been placed on the real property of the Agency. The period of forgiveness will be forgiven at a rate of ten percent per year from the date of the final payments. If the Agency were to not fulfill the requirements of these grants, a liability for the remaining balance of the lien would occur.

Deferred Financing Costs

Deferred financing costs represent costs incurred in obtaining bond financing. Debt issuance costs are presented as a direct deduction of the carrying amount of the debt. These costs are being amortized on a straight-line basis over the term of the related bonds. Amortization of debt issuance costs is included in interest expense.

Amortization expense (interest) for each of the years ended June 30, 2019 and 2018 was $12,093. Amortization expense (interest) for each of the next five years is $12,093.

Grants and Contracts

Governmental grants and contracts, with the exception of certain awards to fund capital expenditures, are generally considered to be exchange transactions rather than contributions. Revenue from cost-reimbursement grants and contracts is recognized to the extent of costs incurred. Revenue from performance-based grants and contracts is recognized to the extent of performance achieved. Grant and contract receipts in excess of revenue recognized on open grants are presented as deferred revenue.

Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for support without donor restrictions unless specifically restricted by the donor. The Agency reports nongovernmental contributions and grants of cash and other assets as support with donor restrictions if they are received with donor stipulations that limit their use. When a donor restriction expires, that is, when a stipulated time restriction ends or purpose restriction is accomplished, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions. Contributions received whose restrictions are met in the same period are presented with net assets without donor restrictions.

Conditional promises to give are recognized when the conditions on which they depend are substantially met.

The Agency reports gifts of property and equipment as support without donor restrictions unless explicit donor stipulations specify how the donated assets must be used. Gifts of long-lived assets with explicit restrictions on how the assets are to be used and gifts of cash or other assets that must be used to acquire property and equipment are reported as support with donor restrictions.

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (*CONTINUED*)

Functional Allocation of Expenses

The costs of providing various programs and other activities have been summarized on a functional basis in Note 12. Accordingly, costs have been allocated among the programs and supporting services benefited. Such allocations are determined by management on an equitable basis. Expenses are allocated based on time and effort, with the exception of depreciation, which is based on square footage and time and effort.

Income Taxes

The Agency is exempt from federal and state income taxes under Section 501(c)(3) of the Internal Revenue Code as a public charity.

New Accounting Pronouncement

In 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-14, Not-for-Profit Entities (Topic 958): *Presentation of Financial Statements of Not-for-Profit Entities.* This update addresses the complexity and understandability of net asset classification, deficiencies in information about liquidity and availability of resources, and the lack of consistency in the type of information provided about expenses and investment return. The Agency has adjusted the presentation of these statements accordingly. The ASU has been applied retrospectively to all periods presented.

Subsequent Events

In preparing these financial statements, the Agency has evaluated subsequent events through October 28, 2019, which represents the date the financial statements were available to be issued.

NOTE 2 – CONCENTRATIONS

Cash and Cash Equivalents

The Agency maintained deposits in financial institutions that exceeded federal depository insurance limits. However, management regularly monitors the financial strength of its depository institutions and, based on that monitoring, believes that the Agency's deposits are not subject to significant credit risk.

Government Grants and Contracts

Based on historical experience, management believes grant and contract receivables represent negligible credit risk. Therefore, no allowance is generally maintained for grants and contracts receivable. The Agency receives a significant portion of its total support from the United States Department of Health and Human Services and the State of Connecticut Department of Social Services ("DSS"). As with all government funding, these grants and contracts may not be renewed or may be renewed in reduced amounts in future years. In addition, grants and contracts currently in effect are subject to reduction prior to the end of the grant or contract period. Any significant reduction in these grants and contracts could have an adverse effect on the Agency's program services.

NOTE 3 – BONDS PAYABLE

Bonds payable consisted of the following as of June 30, 2019 and 2018:

	2019		2018	
	Principal	Unamortized Debt Issuance Costs	Principal	Unamortized Debt Issuance Costs
CHEFA refunding bonds payable, maturing through 2036, original amount $7,360,000, with interest ranging from 1.5%-5.0%	$ 6,465,000	$ 205,590	$ 6,700,000	$ 217,684
Unamortized bond premium	259,728	-	274,577	-
Total	6,724,728	$ 205,590	6,974,577	$ 217,684
Less current portion	240,000		249,849	
Long-term portion	6,484,728		6,724,728	
Less unamortized deferred financing costs	(205,590)		(217,684)	
Bonds Payable - Long-Term, Net	$ 6,279,138		$ 6,507,044	

Maturities of bonds payable for the next five years and thereafter are as follows:

Year Ending June 30:	
2020	$ 240,000
2021	264,849
2022	269,849
2023	279,849
2024	299,849
Thereafter	5,370,332
	$ 6,724,728

DSS funds the majority of the debt service related to the bond issuance through its Debt Service Fund and a Contract Intercept agreement with the Agency. This revenue is presented in the accompanying statements of activities as bond debt service funding. Debt payments funded by DSS and intercepted from Agency grants are held by DSS until debt service payments are due on the bonds. Amounts held by DSS are reported as debt service funding held by state in the accompanying statements of financial position. These amounts are released by DSS on July 1 of the following fiscal year and remitted to the bondholders on behalf of the Agency.

NOTE 4 – NOTES PAYABLE

Notes payable consisted of the following as of June 30, 2019 and 2018:

	2019	2018
Mortgage of $975,000, payable in monthly installments of $6,270 through August 1, 2038, at which time the remaining balance of $605,919 is due, including interest at 4.625%, secured by real property	$ 949,954	$ -
Mortgage of $966,669, payable in monthly installments of $6,523 through December 2028, at which time the remaining balance of $519,566 is due, including interest at 5.3%, secured by real property	-	926,436
Mortgage of $225,000, payable in monthly installments of $1,503 through April 2020, at which time the remaining balance of $142,770 is due, secured by real property	150,109	160,260
Note of $45,979, payable in montly installments of $677 through July 2022, including interest at 1.90%, secured by a vehicle	-	21,891
Note of $84,038, payable in monthly installments of $2,469 through March 2021, including interst at 3.60%, secured by equipment	24,299	31,880
	1,124,362	1,140,467
Less current portion	189,089	69,772
Notes payable - long-term	$ 935,273	$ 1,070,695

Expected maturities of notes payable for the next five years and thereafter are as follows:

Year Ending June 30:	
2020	$ 189,089
2021	40,735
2022	42,459
2023	36,762
2024	37,711
Thereafter	777,606
	$ 1,124,362

NOTE 5 – LINE OF CREDIT

The Agency has an available line of credit of $1,250,000, which expires February 1, 2020 and bears interest at the Wall Street Journal Prime Rate plus .25%. The interest rate at June 30, 2019 and 2018 was 5.25% and 4.50%, respectfully. The line is secured by substantially all Agency assets and is subject to certain financial covenants. No amounts were outstanding under the line as of June 30, 2019 and 2018.

NOTE 6 –NET ASSETS

Net assets with donor restrictions of $43,518 as of June 30, 2019 and 2018, are available for use in the assets for independence program. No net assets were released for this program during the years ended June 30, 2019 and 2018.

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS

Generally accepted accounting principles establish a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1- Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Agency has the ability to access.

Level 2- Inputs to the valuation methodology include:

- Quoted prices for similar assets or liabilities in active markets;
- Quoted prices for identical or similar assets or liabilities in inactive markets;
- Inputs other than quoted prices that are observable for the asset or liability;
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset or liability has a specified (contractual) term, the Level 2 input must be observable for substantially the full term of the asset or liability.

Level 3 - Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Financial Instruments Carried at Fair Value

The carrying value of bonds payable approximates its fair value based on quoted prices for similar bond issues and is considered to be a Level 2 input.

Financial Instruments Not Carried at Fair Value

The Agency's major financial instruments not carried at fair value consist of cash and cash equivalents, grants receivable, accounts payable, line of credit and notes payable. The carrying values of cash and cash equivalents, restricted cash, grants receivable and accounts payable approximate their fair values due to the

NOTE 7 – FAIR VALUE OF FINANCIAL INSTRUMENTS – (*CONTINUED*)

short-term nature of these items. It is impracticable to determine the fair value of the Agency's notes payable due to their lack of marketability.

NOTE 8 – OPERATING LEASES

The Agency leases various locations and equipment under leases that expire through 2023. Total rent expense was $147,482 and $158,646 for the years ended June 30, 2019 and 2018, respectively. Future minimum lease payments under operating leases that have remaining terms in excess of one year are as follows:

2020	$ 71,811
2021	26,748
2022	26,748
2023	24,384

NOTE 9 – CONTRIBUTED SERVICES

Contributed services recognized of $132,675 and $111,473 for the years ended June 30, 2019 and 2018, respectively, relate principally to early childhood programs.

NOTE 10 – CONTINGENCIES

The Agency participates in federal and state-assisted grant programs. These grants are subject to audits by grantor agencies, which could result in disallowed costs due back to the grantor. The Agency has recognized all known audit liabilities.

NOTE 11– EMPLOYEE BENEFIT PLAN

The Agency sponsors a defined contribution 401(k) profit-sharing plan covering substantially all employees. All full-time employees are eligible to participate upon hire and will be eligible for profit sharing after one year of service, as defined, and attaining the age of 18. The Agency matches employees' contributions up to 2% of their compensation. Agency contributions totaled $69,843 and $74,861 for the years ended June 30, 2019 and 2018, respectively.

NOTE 12 – EXPENSES BY FUNCTION

Expenses by function are as follows for the year ended June 30, 2019 (with comparative totals for the year ended 2018):

	2019			
	Program	Management and General	Total 2019	Total 2018
Expenses				
Salaries and benefits	$ 7,246,490	$ 602,554	$ 7,849,044	$ 9,153,767
Direct client assistance	5,056,727	-	5,056,727	4,173,925
Professional and contracted services	992,518	228,000	1,220,518	1,466,581
Occupancy	808,201	108,766	916,967	931,910
Depreciation	418,975	88,796	507,771	521,774
Interest	347,297	1,040	348,337	348,976
Materials and supplies	204,201	8,458	212,659	254,518
Other	143,711	54,210	197,921	221,390
Total Expenses	$ 15,218,120	$ 1,091,824	$ 16,309,944	$ 17,072,841

NOTE 13 – LIQUIDITY AND AVAILABILITY

The following represents Agency's financial assets available to meet general expenditures over the next twelve months at June 30, 2019 and 2018:

	2019	2018
Financial assets at year end:		
Cash and cash equivalents	$ 550,745	$ 1,020,424
Grants receivable	834,162	726,219
Other receivables	133,558	195,665
Restricted cash	128,437	125,800
Total financial assets	1,646,902	2,068,108
Less amounts not available to be used within one year:		
Restricted cash	128,437	125,800
Net assets with donor restrictions	43,518	43,518
	171,955	169,318
Financial assets available to meet general expenditures over the next twelve months	$ 1,474,947	$ 1,898,790

The Agency's liquidity goal is to maintain the ratio of current assets over current liabilities to be greater than 1 and to maintain 30 days or more of available cash. The Agency has a line of credit of $1,250,000 that is available to use.

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