# Capital for Change, Inc.
# and Affiliated Organizations

## Consolidated Financial Statements, Schedule of Expenditures of Federal Awards, Internal Control and Compliance (With Supplementary Information) and Independent Auditor's Reports

March 31, 2020

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**Capital for Change, Inc. and Affiliated Organizations**

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# Independent Auditor's Report

To the Board of Directors
Capital for Change, Inc.

## Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Capital for Change, Inc. and Affiliated Organizations (nonprofit organizations), which comprise the consolidated statement of financial position as of March 31, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements.

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

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of 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 and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement. The financial statements of Connecticut Energy Efficiency Finance Company and Connecticut CDFI Alliance were not audited in accordance with *Government Auditing Standards*.

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.

### *Opinion*

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Capital for Change, Inc. and Affiliated Organizations as of March 31, 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.

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*Other Matters*

*Other Information*

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The consolidating information on pages 37 to 42 is presented for purposes of additional analysis of the consolidated financial statements rather than to present the financial position, changes in net assets and cash flows of the individual organizations, and is not a required part of the consolidated financial statements. The supplementary information included in the accompanying supplementary financial data templates is presented for purposes of additional analysis as required by the U.S. Department of Housing and Urban Development, Office of Lender Activities and Program Compliance, and is not a required part of the consolidated financial statements. The accompanying schedule of expenditures of federal awards, as required by Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards*, is presented for purposes of additional analysis and is also not a required part of the 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 respects, in relation to the consolidated financial statements as a whole.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated June 29, 2020 on our consideration of Capital for Change, Inc. and Affiliated Organizations' internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of Capital for Change, Inc. and Affiliated Organizations' internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Capital for Change, Inc. and Affiliated Organizations' internal control over financial reporting and compliance.

CohnReznick LLP

Hartford, Connecticut
June 29, 2020

## Capital for Change, Inc. and Affiliated Organizations

## Consolidated Statement of Financial Position
## March 31, 2020

### Assets

| | |
|---|---|
| Current assets | |
| Cash | $ 2,195,207 |
| Restricted cash | 10,401,282 |
| Accounts receivable, net | 1,010,136 |
| Grants receivable | 150,000 |
| Interest receivable | 544,835 |
| Loans receivable, current | 8,697,044 |
| Prepaid expenses | 74,096 |
| Total current assets | 23,072,600 |
| Property and equipment, net | 3,910,882 |
| Other assets | |
| Investments | 899,031 |
| Loans receivable, net of current portion | 79,708,788 |
| Loan loss reserves | (4,260,258) |
| Loans receivable - agency assets | 34,773,992 |
| Other assets | 12,920 |
| Total other assets | 111,134,473 |
| Total assets | $ 138,117,955 |

**Capital for Change, Inc. and Affiliated Organizations**

**Consolidated Statement of Financial Position**
**March 31, 2020**

Liabilities and Net Assets

| | |
|---|---|
| Current liabilities | |
| Accounts payable and accrued expenses | $ 611,297 |
| Accrued interest payable | 74,199 |
| Escrows | 3,062,372 |
| Deferred revenue | 331,000 |
| Current portion of long-term debt | 6,714,264 |
| Total current liabilities | 10,793,132 |
| Long-term liabilities | |
| Refundable advances | 4,521,340 |
| Deferred revenue | 1,952,122 |
| Notes payable, net of deferred financing fees | 52,875,929 |
| Notes payable - EQ2 | 5,100,000 |
| Agency liabilities | 35,250,495 |
| Total long-term liabilities | 99,699,886 |
| Total liabilities | 110,493,018 |
| Commitments and contingencies | |
| Net assets | |
| Without donor restrictions | 9,786,266 |
| With donor restrictions | 17,838,671 |
| Total net assets | 27,624,937 |
| Total liabilities and net assets | $ 138,117,955 |

See Notes to Consolidated Financial Statements.

## Capital for Change, Inc. and Affiliated Organizations

### Consolidated Statement of Activities and Changes in Net Assets
### Year Ended March 31, 2020

| | Without donor restrictions | With donor restrictions | Total |
|---|---|---|---|
| Revenue and support | | | |
| Loan interest activity | $ 4,123,211 | $ 66,156 | $ 4,189,367 |
| Loan servicing revenue | 1,665,788 | - | 1,665,788 |
| Loan fees | 722,290 | - | 722,290 |
| Grants and contributions | 1,272,211 | 800,000 | 2,072,211 |
| Interest income - investments | 44,257 | - | 44,257 |
| Recovery of loan losses | 4,813 | - | 4,813 |
| Net assets released from restrictions | 1,443,704 | (1,443,704) | - |
| Total revenue and support | 9,276,274 | (577,548) | 8,698,726 |
| Expenses | | | |
| Program | 7,893,144 | - | 7,893,144 |
| General and administrative | 864,339 | - | 864,339 |
| Fundraising | 244,293 | - | 244,293 |
| Total expenses | 9,001,776 | - | 9,001,776 |
| Changes in net assets | 274,498 | (577,548) | (303,050) |
| Net assets, beginning | 9,511,768 | 18,416,219 | 27,927,987 |
| Net assets, end | $ 9,786,266 | $ 17,838,671 | $ 27,624,937 |

See Notes to Consolidated Financial Statements.

## Capital for Change, Inc. and Affiliated Organizations

## Consolidated Statement of Functional Expenses
## Year Ended March 31, 2020

| | Program | General and Administrative | Fundraising | Total |
|---|---|---|---|---|
| Expenses | | | | |
| Personnel costs | $ 2,569,550 | $ 332,429 | $ 144,581 | $ 3,046,560 |
| Employee benefits | 582,078 | 45,262 | 48,190 | 675,530 |
| Insurance | 78,135 | 34,289 | 2,017 | 114,441 |
| Lending interest expense | 2,195,722 | - | - | 2,195,722 |
| Provision for loan losses | 1,141,034 | - | - | 1,141,034 |
| Bad debts | 2,479 | - | - | 2,479 |
| Loan servicing expenses | 92,916 | - | - | 92,916 |
| Grant expenses | 635 | - | 19,500 | 20,135 |
| Building repairs and maintenance | 40,480 | 22,198 | 1,306 | 63,984 |
| Occupancy expense | 127,162 | 69,735 | 4,102 | 200,999 |
| Professional services | 1,052,613 | 130,468 | 5,885 | 1,188,966 |
| Technology | 118,459 | 16,480 | 969 | 135,908 |
| Miscellaneous expenses | 7,079 | - | - | 7,079 |
| Depreciation | 181,502 | 99,533 | 5,855 | 286,890 |
| Administrative expenses | 142,253 | 554,308 | 10,322 | 706,883 |
| Postage | 42,822 | 827 | 49 | 43,698 |
| Telephone | 22,479 | 8,617 | 507 | 31,603 |
| Office expense | 24,658 | 13,432 | 749 | 38,839 |
| Office equipment | 8,088 | 4,436 | 261 | 12,785 |
| | 8,430,144 | 1,332,014 | 244,293 | 10,006,451 |
| Eliminations | (537,000) | (467,675) | - | (1,004,675) |
| Total expenses | $ 7,893,144 | $ 864,339 | $ 244,293 | $ 9,001,776 |

See Notes to Consolidated Financial Statements.

**Capital for Change, Inc. and Affiliated Organizations**

**Consolidated Statement of Cash Flows**
**Year Ended March 31, 2020**

| | | |
|---|---|---|
| Cash flows from operating activities | | |
| Change in net assets | $ | (303,050) |
| Adjustments to reconcile change in net assets to net cash used in operating activities | | |
| Depreciation | | 286,890 |
| Amortization of debt issuance costs | | 18,620 |
| Accretion of deferred revenue | | 360,701 |
| Unrealized (gain) loss on investments | | 12,468 |
| Realized (gain) loss on investments | | (30,652) |
| Provision for loan loss reserve | | 1,233,950 |
| Bad debts | | 2,479 |
| Changes in operating assets and liabilities | | |
| Accounts receivable | | 126,416 |
| Grants receivable | | (150,000) |
| Interest receivable | | (154,601) |
| Loans receivable | | (9,812,151) |
| Prepaid expenses | | 48,163 |
| Other assets | | 14,527 |
| Accounts payable and accrued expenses | | 309,946 |
| Deferred revenue | | 204,048 |
| Net cash used in operating activities | | (7,832,246) |
| Cash flows from investing activities | | |
| Purchase of property and equipment | | (2,206,985) |
| Restricted cash | | (321,689) |
| Escrows | | (1,117,971) |
| Purchase of investments | | (528,362) |
| Net cash used in investing activities | | (4,175,007) |
| Cash flows from financing activities | | |
| Agency funds disbursed | | (24,176) |
| Payment of debt issuance costs | | (135,000) |
| Repayment of notes payable | | (17,064,807) |
| Proceeds from notes payable | | 33,270,774 |
| Net cash provided by financing activities | | 16,046,791 |
| Net increase in cash and restricted cash | | 4,039,538 |
| Cash and restricted cash, beginning | | 8,130,125 |
| Cash and restricted cash, end | $ | 12,169,663 |
| Supplemental disclosure of cash flow information | | |
| Cash paid during the year for interest | $ | 2,190,183 |

See Notes to Consolidated Financial Statements.

## Note 1 - Organization

Capital for Change, Inc. ("C4C") is a statewide, private nonprofit 501(c)(3) tax-exempt organization of the Internal Revenue Code (the "Code") established in 1968 whose primary purpose is affordable housing lending. The consolidated financial statements reflect the activities of C4C, CHIF Properties, LLC, C4C Historic Pearl, Connecticut Energy Efficiency Finance Company ("CEEFCo") and Connecticut CDFI Alliance ("CT CDFI") for the year ended March 31, 2020.

C4C is a unique housing finance organization offering multiple services for affordable housing and community development, which includes consumer mortgage and unsecured lending, commercial housing, nonprofit and small business loans, third-party contract administration, loan portfolio management and servicing and technical assistance to other organizations and businesses. C4C is certified by the U.S. Department of Treasury as a Community Development Financial Institution and conducts community-lending activities throughout the State of Connecticut, is licensed for mortgage lending in Connecticut and is licensed to conduct loan servicing in the State of Connecticut and Commonwealth of Massachusetts. C4C is also licensed by the Federal Housing Administration ("FHA") for mortgage origination, lending and servicing.

C4C provides financing through direct and participation loans, and finances predevelopment, purchase/rehabilitation, construction, bridge, down payment, energy conservation and permanent loans. C4C is capitalized with lower interest notes and equity equivalents from conventional lenders. Additional capital sources include corporate, foundation, municipal, state and federal government grants and loans, utility rate payer capital, program related investments from charitable organizations and other socially concerned community investors.

CHIF Properties, LLC is a sole member LLC of which C4C is the sole member. The entity was established to hold other real estate owned ("OREO") properties acquired through foreclosure. C4C Historic Pearl is a wholly owned subsidiary of C4C, which was created to promote the development of a historic real estate tax credit project. There is no activity reported in either of these subsidiaries as of March 31, 2020.

Connecticut Energy Efficiency Finance Company ("CEEFCo") is a special purpose organization established in 2011 as a 501(c)(3) tax-exempt organization. C4C is allowed to appoint the majority of CEEFCo's Board of Directors. Accordingly, the accounts of CEEFCo have been consolidated herein, as required by accounting principles generally accepted in the United States of America ("GAAP"). Since 2011, CEEFCo has received contributions of $17,100,000 donor restricted for the purpose of making qualifying residential energy efficiency loans to consumers and to administer the residential financing program for energy efficiency loans and related loan loss guarantees and interest rate buy downs to support other CEEFCo energy lending products. These funds are unavailable for use by C4C, unless specifically authorized by Eversource and are non-recourse to C4C.

CT CDFI is a statewide, private nonprofit 501(c)(3) tax-exempt organization whose primary purpose is to finance the acquisition and development of affordable and special needs housing. CT CDFI is a collaborative union of several Community Development Financial Institutions ("CDFIs"), of which C4C is the sole remaining member. Management is in the process of unwinding and dissolving CT CDFI and has submitted a request to the State of Connecticut requesting forgiveness of all outstanding debt. The request is pending approval by the State Bonding Commission.

## Note 2 - Summary of significant accounting policies

### Principles of consolidated financial statements

These entities together are referred to as the "Organization" in the accompanying consolidated notes. All significant intercompany accounts and transactions have been eliminated in the consolidation.

### Basis of presentation

Net assets, revenues, expenses, gains and losses are classified based on the existence or absence of donor-imposed restrictions. Accordingly, net assets and changes therein are classified as follows:

*Net assets without donor restrictions*

Net assets without donor restrictions represent available resources other than donor-restricted contributions. Included in net assets without donor restrictions are funds that may be earmarked for specific purposes.

*Net assets with donor restrictions*

Net assets subject to donor- (or certain grantor-) imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Revenues are reported as increases in net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. Expenses are reported as decreases in net assets without donor restrictions. Gains and losses recognized on investments and other assets or liabilities, if any, are reported as increases or decreases in net assets without donor restrictions unless their use is restricted by explicit donor stipulation or by law. Expirations of restrictions on net assets (i.e., the donor-stipulated purpose has been fulfilled and/or the stipulated time period has elapsed) are reported as reclassifications between the applicable classes of net assets. Donor-restricted contributions whose restrictions are met in the same reporting period have been reported as support without donor restrictions in the consolidated statement of activities and changes in net assets.

### Contributions

Unconditional contributions are recognized when pledged or received, as applicable, and are considered to be available for unrestricted use unless specifically restricted by the donor. Contributions receivable expected to be collected in more than one year are discounted to their net present value. C4C 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. Conditional promises to give are recognized when the conditions on which they depend are substantially met.

### Revenue recognition

Interest on loans receivable is recognized over the term of the loan and is calculated using the simple-interest method on principal amounts outstanding. Interest income is not recognized when receipt of principal or interest is considered to be in doubt. The Organization's policy is generally not to recognize interest on loans greater than 90 days past due. Interest income for such loans is recognized on the cash basis. Grants are recognized as revenue over the grant term based on meeting the terms and restrictions as specified in the grant document. Revenues from corporate service contracts are recognized when earned in accordance with the terms of the contracts. Fee income is recognized when earned from loan origination, loan servicing and third-party contract administration.

**Restricted cash**

Bank account balances in trust to the Organization under third-party fiduciary contracts are reflected as restricted cash and escrow liabilities and are required to be maintained in a separate bank account. The aggregate balance of these accounts at March 31, 2020 was $10,401,282.

**Service contracts**

Revenues from service contracts are recognized when earned in accordance with the terms of the contracts. Fee income is recognized when earned from loan origination, loan servicing, third-party contract administration and other consulting.

**Accounts receivable**

The Organization has accounts receivable related to fee for service contracts, corporate advances for loans servicing and special events that are reported net of an allowance for doubtful accounts. Based on management's assessment of outstanding balances, the allowance for doubtful accounts attributed to loan servicing was $276,820 at March 31, 2020. Accounts receivable balances are written off when management has concluded that all reasonable methods of collection have been exhausted.

**Investments**

C4C maintains agency funds held by The Community Foundation for Greater New Haven (the "Foundation"). The agency fund agreement provides that C4C receive investment income from the funds, to be determined by the Foundation in its sole discretion. C4C has the ability to access up to 50% of the principal, subject to a 60-day notice period. Distributions of more than 50% of the funds' fair market value require 90-day notice. The agency funds are carried at fair value as discussed in Note 6. Changes in the carrying amount of the agency funds are recognized as increases or decreases in net assets without donor restrictions. The fair value of the pooled funds was $306,063 at March 31, 2020.

In fiscal year 2020, C4C invested funds with a third party brokerage and investment management company. The fair value of these investments was $577,968 as of March 31, 2020. This investment represents a 10% reserve for the banks' portion of the MPLP2 funding.

C4C also has two investments in other entities. In January 2019, C4C invested $15,000 in a partnership, New Haven Community Solar, for a noncontrolling ownership percentage of 1.07%. No activity has been recognized through the year ended March 31, 2020. In addition, C4C Historic Pearl has a .1% interest in Spectra 111 MM, LLC which is accounted for on the cost basis. As of March 31, 2020, no cash investment has been made and no disbursements have been received. C4C accounts for these investments on the cost basis. As of March 31, 2020, no investment has been made and no disbursements have been made.

**Loans receivable**

Loans receivable are carried at unpaid principal balances, less an allowance for loan losses.

**Allowance for loan losses**

The allowance for loan losses reflects management's judgment of probable loan losses inherent in the portfolio at the balance sheet date. The Organization uses a disciplined process and methodology to establish the allowance for loan losses, periodically, but no less than annually. For purposes of determining the allowance for loan losses, the Organization segments certain loans in its portfolio by product type. The Organization's loans are segmented into three pools: real estate loans, commercial lines of credit and unsecured energy efficiency loans to consumers. The reported loan loss reserve balance for 2020 reflects this methodology; all real estate loans and commercial lines of credit are evaluated individually and unsecured energy efficiency loans are evaluated as a pool. Risk grades are assigned and approved at underwriting and can be updated throughout the life of the loan.

The establishment of the allowance for loan losses relies on a consistent process that requires management's review and judgment and responds to the Organization's past loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. The Organization's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumption and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced staff.

Management monitors differences between estimated and actual incurred loan losses. This monitoring process includes periodic assessments by senior management of loan portfolios and the models used to estimate incurred losses in those portfolios. Additions to the allowance for loan losses are made by charges to the provision for loan losses. Credit exposures deemed to be uncollectible are charged against the allowance for loan losses. Recoveries of previously charged off amounts are recognized in revenue in the period received.

The Organization's practice is to charge-off any loan or portion of a loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral or for other reasons. There were no changes to the Organization's process and methodology during the year ended March 31, 2020.

**Property and equipment**
Purchased real estate, property and equipment are recorded at cost. All expenditures for improvements and equipment of $2,500 or more are capitalized. With the acquisition of a new building in Wallingford, all building improvements costs were capitalized. Similarly, costs to prepare the Hartford office for sale are included in the building cost. The sale of the Hartford office is expected in the fiscal year ending March 31, 2021. The straight-line method of depreciation is used over the estimated useful lives as follows:

| | |
|---|---|
| Furniture and fixtures | 5 years |
| Leasehold improvements | 10 years |
| Office | 30 years |
| Office equipment building | 5 years |
| Computer software | 3 years |

**Impairment of long-lived assets**
The Organization reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value as determined from an appraisal, discounted cash flow analysis or other valuation techniques. There were no impairment losses recognized during the year ended March 31, 2020.

**Debt issuance costs**
Debt issuance costs, net of accumulated amortization, are reported as a direct deduction from the face amount of the note payable to which such costs relate. Amortization of debt issuance costs is reported as a component of interest expense and is computed using an imputed interest rate on the related loan.

### Refundable advances

Amounts from grants and other revenue that are received but unearned are reflected as refundable advances in the accompanying consolidated statement of financial position and are subsequently reflected in the accompanying consolidated statement of activities and changes in net assets during the period of which they apply as the funds are expended.

### Social Impact Investment

Capital for Change, Inc. offers Impact Investors the opportunity to invest in an organization that is aligned with their values of improving conditions for underserved communities and persons in Connecticut by preserving and creating affordable housing, promoting adoption of energy efficiency and alternative energy, and supporting nonprofits and small business development. Since 1987, dozens of banks, faith-based groups, foundations, nonprofit organizations, high-net worth and other individual investors have partnered with C4C through notes payable offering fixed interest rate returns ranging from 0% to 3.5% per annum that assist C4C in capitalizing its community loan pool. These notes are payable over a period of 1 to 7 years.

### Functional expenses

The Organization allocates its expenses on a functional basis among its program and supporting services. Expenses that can be specifically identified with a program or supporting service are allocated directly according to their natural classifications. Other expenses that are common to several functions are allocated based on a percentage of salaries or headcount by program/business unit as a percentage of total C4C salaries or headcount.

### Statement of cash flows

For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments purchased with a maturity date of three months or less to be cash equivalents. There were no cash equivalents at March 31, 2020.

### Tax status

C4C, CEEFCo and CT CDFI are exempt from federal income tax as a publicly supported charitable organization described in Section 501(c)(3) and 509(a)(2) of the Code. CHIF Properties, LLC and C4C Historic Pearl are sole member LLCs of which C4C is the sole member; as such they are disregarded entities for tax purposes and any activity is reported by C4C. Accordingly, no provision for income taxes has been made in the consolidated financial statements.

The Organization has no unrecognized tax benefits at March 31, 2020. Federal information returns prior to fiscal year 2016 are closed and management continually evaluates expiring statutes of limitations, audits, proposed settlements, changes in tax law and new authoritative rulings.

If the Organization had unrelated business income taxes, it would recognize interest and penalties associated with any tax matters as part of the income tax provision and include accrued interest and penalties with the related tax liability in the consolidated statement of financial position.

### Use of estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Those estimates and assumptions affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. The Organization regularly assesses these estimates and, while actual results may differ from these estimates, management believes that material changes will not occur in the near term.

**Agency assets/liabilities**
C4C has entered into agreements to act as an Agent and administer the City of Bridgeport's Brownfields Cleanup Revolving Loan Fund. Terms of the agreements allow C4C to utilize interest payments and fees collected to assist with the organization's program and administrative costs. Interest earned during the year ended March 31, 2020 amounted to approximately $25,773.

**Energize CT HEAT Loan**
C4C administers a legislatively mandated consumer energy efficiency loan program for Eversource and Avantgrid (the "Utilities"). C4C manages contractor engagement, online application intake, applicant interactions, underwriting processes, and closes approved loans with funding capital provided by the utilities. C4C also provides the Utilities On Bill Repayment services for these loans, whereby the Utilities bill their respective borrowers (who are their customers) through their distribution invoicing and collect the loan payments directly from their customers, notifying C4C of the payment activity. C4C does not receive payments directly but provides payment history accounting administration based on the Utilities' reporting (i.e. shadow servicing) to support the Utilities' On Bill Repayment programs.

**Veterans Housing Assistance Fund**
C4C holds two pools of funds as the fiduciary for the Veterans Housing Assistance Fund. One pool is available for "basic needs" of Veterans and disbursements are made to or at the direction of the VA Errera Community Care Center. The other pool may be used for recoverable or forgivable predevelopment loans for projects that will provide housing to Veterans.

**Subsequent events**
Management has evaluated subsequent events through June 29, 2020, which is the date the consolidated financial statements were available to be issued. See Note 23 - Subsequent events.

## Note 3 - Newly adopted accounting standards

In November 2016, the Financial Accounting Standards Board issued Accounting Standards Update 2016-18, *Statement of Cash Flows (Topic 230) - Restricted Cash* ("ASU 2016-18") to address diversity in practice with respect to the cash flows presentation of changes in amounts described as restricted cash and cash equivalents. ASU 2016-18 requires a reporting entity to include amounts described as either restricted cash or restricted cash and cash equivalents (collectively referred to as "restricted cash" herein) when reconciling beginning and ending balances in its consolidated statement of cash flows. The update also amends Topic 230 to require disclosures about the nature of restricted cash and provide a reconciliation of cash, cash equivalents and restricted cash between the consolidated statement of financial position and the consolidated statement of cash flows. ASU 2016-18 was adopted retrospectively during the year ended March 31, 2020. Consequently, ending cash and restricted cash as of March 31, 2019 was increased from $1,235,106 to $8,130,125.

In May 2014, the Financial Accounting Standards Board issued Accounting Standards Update 2014-09, *Revenue from Contracts with Customers (Topic 606)* ("ASU 2014-09"). Effective January 2019, the Organization adopted ASU 2014-09 on a retrospective basis. The modifications under ASU 2014-09 were applied to all of the Organization's contracts with customers. No practical expedients were applied. The majority of the C4C's revenue is derived from loan interest revenue, loan servicing fees and grants and contributions. Therefore, adoption of ASU 2014-09 had no impact on the recognition of revenue of C4C during the period presented or on the opening balance of C4C's net assets as of April 1, 2019.

## Note 4 - Liquidity and management's plans

The Organization regularly monitors liquidity required to meet its annual operating needs and other contractual commitments. As of March 31, 2020, the Organization has approximately $4.3 million of financial assets available to meet annual operating needs for the 2020 fiscal year as follows:

| | | |
|---|---|---|
| Cash | $ | 2,195,207 |
| Accounts receivable | | 1,010,136 |
| Grants receivable | | 150,000 |
| Loan interest receivable | | 544,835 |
| Investments | | 899,031 |
| Total financial assets | | 4,799,209 |
| Less donor imposed restrictions | | (546,662) |
| Financial assets available | $ | 4,252,547 |

These financial assets are not subject to any donor or contractual restrictions. C4C supports its general operations primarily with loan interest revenue, loan servicing revenue, fee for services and donor contributions whose time or purpose restrictions have been met.

Lending activities are supported by repayment of principal on loans receivable, grants and loans from third parties. In addition to the financial assets available to meet general expenditures within one year, C4C has MPLP funding available to fund new loans for a total of $8,954,929 as of March 31, 2020.

## Note 5 - Restricted cash

Restricted cash consists of the following at March 31, 2020:

| | | |
|---|---|---|
| Funds designated for lending | $ | 6,603,826 |
| Escrows held | | 3,062,372 |
| Agency funds | | |
| Veteran's fiduciary fund | | 81,894 |
| Brownfield cash | | 320,606 |
| CDBG funds | | 283,834 |
| HEAT loan funds | | 48,750 |
| Total restricted cash | $ | 10,401,282 |

Restricted funds for the MPLP loan portfolio is invested in investments at fair market value of $577,968 as of March 31, 2020. See Note 6 - Investment securities.

**Statement of cash flows**

The following table provides a reconciliation of cash and restricted cash reported within the consolidated statement of financial position that sum to the total of the same such amounts in the consolidated statement of cash flows:

| | | |
|---|---|---|
| Cash | $ | 2,195,207 |
| Funds designated for lending | | 6,177,000 |
| Escrows held | | 3,062,372 |
| Agency funds | | |
| Veteran's fiduciary fund | | 81,894 |
| Brownfield cash | | 320,606 |
| CDBG funds | | 283,834 |
| HEAT loan funds | | 48,750 |
| Total cash and restricted cash shown in the statement of cash flows | $ | 12,169,663 |

The amount included in restricted cash consists of funds designated for future lending, real estate tax and insurance escrow and other reserves as required by the lender agreements, and various agency funds held by C4C.

## Note 6 - Investment securities

The cost and fair value of investment securities are as follows:

| | | Cost | | Fair value | | Total unrealized gains (losses) |
|---|---|---|---|---|---|---|
| Treasury bond ETF | $ | 530,962 | $ | 552,919 | $ | 21,957 |
| Cash to be invested | | 25,049 | | 25,049 | | - |
| Pooled funds | | 344,169 | | 306,063 | | (38,106) |
| Partnerships | | 15,000 | | 15,000 | | - |
| | $ | 915,181 | $ | 899,031 | $ | (16,150) |

The components of investment return during the year ended March 31, 2020 are reflected below:

| | | |
|---|---|---|
| Interest and dividends | $ | 3,627 |
| Realized gains (losses) | | 30,652 |
| Unrealized gains (losses) | | (12,468) |
| Investment management fees | | (3,766) |
| Total return on investments | $ | 18,046 |

## Note 7 - Fair value measurements

GAAP establishes 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 (Level 1) and the lowest priority to unobservable inputs (Level 3). 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 C4C has the ability to access.

Level 2: Inputs to the valuation methodology include:

- Quoted prices for similar assets 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; and
- Inputs that are derived principally from or corroborated by observable market data by correlation or other means.

If the asset 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.

The following is a description of the valuation methodologies used for assets measured at fair value:

*Treasury bond ETF* - The valuation is based on quoted market prices in active markets.

*Pooled funds* - Pooled funds are commingled funds that consist of assets valued based on the net asset value ("NAV") as the practical expedient. The funds are managed in order to preserve the purchasing power and real economic spending of the fund in accordance with a total-return approach, which does not distinguish between the asset's yield and appreciation, but rather on the total expected return of the assets over the long-term.

There have been no changes in the methodologies used at March 31, 2020.

C4C recognizes transfers between levels in the fair value hierarchy at the end of the reporting period.

The methods described above may produce a fair value calculation that may not be indicative of net realizable value or reflective of future fair values. Furthermore, while C4C believes its valuation methods are appropriate and consistent with other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different fair value measurement at the reporting date.

| | | Fair value measurements at reporting date using | | |
|---|---|---|---|---|
| | Total | Quoted prices in active markets for identical assets/liabilities (Level 1) | Significant other observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Investments by fair value level: | | | | |
| Treasury bond ETF | $ 552,919 | $ 552,919 | $ - | $ - |
| Investments measured at net asset value ("NAV"): | | | | |
| Pooled funds | 306,063 | | | |
| Cash to be invested | 25,049 | | | |
| Total investments measured at fair value | $ 884,031 | | | |

(a) In accordance with Financial Accounting Standards Board Accounting Standards Codification Subtopic 820-10, certain investments that were measured at fair value using the NAV per share (or its equivalent) practical expedient have not been classified in the fair value hierarchy. The fair value amounts presented in this table are intended to permit reconciliation of the fair value hierarchy to the line items presented in the consolidated statement of financial position.

**Fair value of investments in entities that use NAV**
The following table summarizes investments measured at fair value based on NAV per share as of March 31, 2020:

| | Fair value | Unfunded commitments | Redemption frequency (if currently eligible) | Redemption notice period |
|---|---|---|---|---|
| Pooled funds | $ 306,063 | n/a | no limit | 60 days for up to 50% of market value. 90 days for more than 50% of market value. |

## Note 8 - Loans receivable

Loans receivable consist of the following portfolio classes: permanent loans, predevelopment/acquisition loans, bridge loans, construction loans, commercial real estate loans, commercial lines of credit, consumer housing and energy efficiency loans, all of which have been approved by the Organization's loan committee, except for the notes received through assignment from Neighborhoods of Hartford, Inc.; the assignment was approved by the loan committee. The Organization deems the entire portfolio to be one segment.

Loans receivable and the relative loan loss reserve percentage as of March 31, 2020 were as follows:

| Loans receivable | C4C | CEEFCo | CT CDFI | Total |
|---|---|---|---|---|
| Permanent | $ 20,197,512 | $ - | $ - | $ 20,197,512 |
| Predevelopment/acquisition | 4,610,681 | - | - | 4,610,681 |
| Bridge | 2,601,907 | - | - | 2,601,907 |
| Construction | 13,964,271 | - | - | 13,964,271 |
| Commercial real estate | 5,946,939 | - | - | 5,946,939 |
| Commercial | 1,913,431 | - | - | 1,913,431 |
| Consumer - housing | 416,303 | - | - | 416,303 |
| Energy efficiency | 9,783,632 | 28,971,156 | - | 38,754,788 |
| | 59,434,676 | 28,971,156 | - | 88,405,832 |
| Less allowance for loan losses | 3,973,752 | 286,506 | - | 4,260,258 |
| | $ 55,460,924 | $ 28,684,650 | $ - | $ 84,145,574 |

| | C4C | CEEFCo | CT CDFI | Total |
|---|---|---|---|---|
| Allowance for loan losses | | | | |
| Balance, April 1, 2019 | $ 4,746,886 | $ 472,910 | $ 350,384 | $ 5,570,180 |
| Provision for losses | 714,952 | 426,082 | - | 1,141,034 |
| Provision for losses - refundable advances | 153 | - | - | 153 |
| Loans charged off | (1,488,239) | (612,486) | (350,384) | (2,451,109) |
| Balance, March 31, 2020 | $ 3,973,752 | $ 286,506 | $ - | $ 4,260,258 |

CEEFCo's loan loss reserve is set at 1% of the outstanding balance plus 100% of direct billing customers with balances greater than 120 days. C4C's loan loss reserve averages 6.7% of the outstanding balance resulting in the combined average rate of 4.8% of the outstanding loan portfolio.

**Residential loans**

Permanent loans include first mortgages and other subordinate mortgages. First mortgages bear interest at an annual rate of 4.00% - 6.50%, with repayment terms from 10 - 30 years. Second mortgages bear interest at annual rates of 0% to 8.00% with repayment over a range of periods from 5 to 20 years.

Predevelopment loans bear interest at annual rates of 0.00% - 6.50% with a repayment range of periods from 1 - 10 years; $0 was available to be drawn by borrowers at March 31, 2020.

Bridge loans bear interest at annual rates of 3.00% - 6.00% with a repayment range less than one year; at March 31, 2020, $0 was available to be drawn by borrowers.

Construction loans bear interest at annual rates of 0.00% - 6.50% with a repayment range of periods from 1 - 12 years; $1,150,826 was available to be drawn by borrowers at March 31, 2020.

Consumer housing loans include down payment assistance and teacher home ownership funds totaling $416,303 at March 31, 2020. Down payment assistance loans range from $4,000 to $5,000, with 0% interest rates. Principal repayments are due upon the earlier of 1) default of the borrower on any other indebtedness secured by a mortgage on the same property, 2) sale or transfer of title of the property, or 3) 30 years from the date of the note. Citizens Bank provided funding through an equity equivalent debt as discussed in Note 13. New Haven Teachers Home Ownership Fund represents loans advanced on behalf of a program funded by the Foundation to New Haven public school teachers to encourage them to teach and live in the city of New Haven. The loans are interest-free loans for up to 40 years with repayment deferred until the sale, transfer or refinance of the property. In the event the funds paid out to eligible buyers under the program are not repaid by the homebuyer, the Foundation will assume all losses.

**Commercial loans**
Commercial real estate loans include first and other subordinate mortgages that bear interest at an annual rate of 0.00% - 7.00% with a repayment range for construction only loans up to 24 months and construction to permanent loans with repayment terms of periods from 4 - 30 years.

Real estate related loans are secured by the related properties that are all located within the State of Connecticut.

Business loans include lines of credit that bear interest rates at 2.00% to 8.50% with a repayment term of 1 - 21 years. At March 31, 2020, there were unclosed commitments to borrowers of approximately $650,000 and approximately $789,999 was available to be drawn on closed loans by borrowers at March 31, 2020.

**Energy efficiency loans - Commercial Lending**
Energy efficiency loans include commercial energy loans of $9,783,632 that bear interest at annual rates of 5.5% - 6.25% with repayment of 6 - 20 years. One funding source of the commercial energy loans provides for an offset of loan losses in an amount up to $775,832. At March 31, 2020, $775,832 was reserved for loan loss reserves and $2,156,918 was available to be drawn. Certain energy loans may be unsecured.

**Energy efficiency loans - Consumer Lending**
Consumer energy loans of $28,971,156 bear interest at annual rates of 0% to 9.25% with a repayment term of 3 - 10 years. Consumer energy loans are unsecured. The recovery of the carrying amount of these loans is susceptible to changes in local market conditions.

**Allowance for loan losses**
The Organization uses a disciplined process and methodology to establish the allowance for loan losses, periodically, but no less than annually. For purposes of determining the allowance for loan losses, the Organization segments certain loans in its portfolio by product type. The Organization's loans are segmented into three pools: real estate loans, commercial lines of credit and unsecured energy efficiency loans to consumers. The reported loan loss reserve balance for 2020 reflects this methodology; all real estate loans and commercial lines of credit are evaluated individually and unsecured energy efficiency loans are evaluated as a pool. Risk grades are assigned and approved at underwriting and can be updated throughout the life of the loan.

The establishment of the allowance for loan losses relies on a consistent process that requires management's review and judgment and responds to the Organization's past loan loss experience, specific impaired loans, adverse situations that may affect the borrower's ability to repay, estimated value of any underlying collateral and current economic conditions. The Organization's allowance for loan losses is sensitive to risk ratings assigned to individually evaluated loans and economic assumption and delinquency trends driving statistically modeled reserves. Individual loan risk ratings are evaluated based on each situation by experienced staff. There were no significant changes in the Organization's accounting policies during the year ended March 31, 2020.

**Estimation process**
The Organization estimates loan losses using an internally developed risk rating guidance applied to performing loans, which considers the lien priority, loan-to-value, history of performance or other factors that could impact the probability of default and potential loss. Management applies judgment to develop its own view of loss probability within the portfolio with the objective of establishing an allowance for the losses inherent within the portfolio as of the reporting date.

Reflected in the portions of the allowance previously described is an amount for imprecision or uncertainty that incorporates the range of probable outcomes inherent in estimates used for the allowance, which may change from period to period. This amount is the result of management's judgment of the risks inherent in the portfolio, economic uncertainties, historical loss experience and other subjective factors, including industry trends, calculated to better reflect the Organization's view of risk in the portfolio. No single statistic or measurement determines the adequacy of the allowance for loan loss. Changes in the allowance for loan loss and the related provision expense can materially affect the changes in net assets.

Allowance for loan losses and recorded investment in loans:

| | |
|---|---|
| Allowance for loan losses | |
| Balance, beginning of year | $ 5,570,180 |
| Charge offs | (2,451,109) |
| Provision for losses - refundable advances | 153 |
| Provision for losses | 1,141,034 |
| Balance, end of year | $ 4,260,258 |

The Organization's practice is to charge off any loan when the loan is determined by management to be uncollectible due to the borrower's failure to meet repayment terms, the borrower's deteriorating or deteriorated financial condition, the depreciation of the underlying collateral or for other reasons. C4C, CEEFCo and CT CDFI charged off $1,488,239, $612,486 and $350,384, respectively, of loans during the year ended March 31, 2020. All loans were individually evaluated for impairment. There have been no purchases or reclassifications of financing receivables. During the year ended March 31, 2020, C4C sold three loans without recourse for total proceeds of $1,548,108.

**Credit quality information**
The following tables represent credit exposure by creditworthiness category for the year ended March 31, 2020. The use of creditworthiness categories to grade loans permits management's use of migration analysis to estimate a portion of credit risk. The Organization's internal creditworthiness grading system is based on experiences with similarly graded loans. Category ratings are reviewed periodically, at which time management analyzes the resulting scores, as well as other external statistics and factors, to track the migration of loan performance. Loans that migrate toward lower risk ratings generally have a lower risk factor associated; whereas, loans that trend upward toward higher risk ratings generally will result in a higher risk factor being applied to those related loan balances.

**Credit quality of financing receivables**
The following tables and the accompanying explanations present informative data regarding the credit quality of the Organization's financing receivables at March 31, 2020.

**Credit risk profile for real estate, commercial energy efficiency and business loans**
The Organization uses the following credit classifications to risk rate the real estate portfolio. The classifications used are based on available information regarding the repayment performance of individual borrowers in servicing their debt, such as current financial information, historical payment experience, credit documentation, publicly available information and current trends:

| Category | Description of creditworthiness |
|---|---|
| Better | Assigned to loans that have demonstrated above-average performance with strong cash flow coverage over an extended period, financial condition is strong and must have a strong social impact or otherwise significantly further C4C's mission. |
| Satisfactory | Assigned to loans that have demonstrated above-average performance with strong cash flow coverage over an extended period, financial condition has been stable or improving. |
| Acceptable | Assigned to loans with acceptable asset protection and cash flow provides a reasonable prospect of orderly payout, but more pronounced risk elements than loans classified as satisfactory. |
| Transitional | Assigned to loans with the characteristics of an acceptable loan but warrants more than the normal level of supervision and formal reporting to management. |
| Special Mention | Loans that have potential weaknesses deserving of management's close attention. |
| Substandard | Loans in this classification have a well-defined weakness or weaknesses that jeopardize the repayment of the debt and there is a distinct possibility that the Organization will sustain some loss if the deficiencies are not corrected. |
| Doubtful | These loans have all of the weaknesses inherent in those classified as substandard, with the added characteristic that the weaknesses make collection or liquidation in full, on the basis of currently existing facts, conditions and values, highly questionable and improbable. |
| Loss | Considered uncollectible. |

The information used to risk-rate the real estate, commercial energy efficiency and business loan portfolios is updated as of March 31, 2020:

| Internally assigned grade | C4C | CEEFCo | Total |
|---|---|---|---|
| Better | $ 4,594,550 | $ - | $ 4,594,550 |
| Satisfactory | 4,456,823 | 28,521,506 | 32,978,329 |
| Acceptable | 19,309,469 | - | 19,309,469 |
| Transitional | 16,378,396 | - | 16,378,396 |
| Special Mention | 6,457,272 | - | 6,457,272 |
| Substandard | 6,904,660 | 239,532 | 7,144,192 |
| Doubtful | 1,333,506 | 210,118 | 1,543,624 |
| | $ 59,434,676 | $ 28,971,156 | $ 88,405,832 |

**Credit risk profile for unsecured energy efficiency loans**

The Organization uses industry guidelines from the American Council for an Energy-Efficient Economy to establish the criteria for the loan loss reserve percentage applied to the Energy Efficiency loan pool, which is currently at 1%, additional reserves for loans in collection are also considered. There were no additional reserves included at March 31, 2020.

**Age analysis of past due financing receivables by class**

The following table includes an aging analysis of loans receivable as of March 31, 2020. Included are loans that are 90 days or more past due as to interest and principal and still accruing because they are secured by real estate or otherwise well secured and in the process of collection.

| | Over 90 days | 61 - 90 days | 31 - 60 days | Current | Total |
|---|---|---|---|---|---|
| Residential loan pool | $ 4,116,240 | $ - | $ 5,098,679 | $ 32,575,756 | $ 41,790,675 |
| Commercial loan pool | 4,341,915 | - | 619,650 | 2,898,804 | 7,860,369 |
| Energy efficiency loan pool - commercial | 64,140 | - | 150,000 | 9,569,492 | 9,783,632 |
| Energy efficiency loan pool - residential | 308,437 | 370,692 | 1,047,766 | 27,244,261 | 28,971,156 |
| | $ 8,830,732 | $ 370,692 | $ 6,916,095 | $ 72,288,313 | $ 88,405,832 |

At March 31, 2020, the total recorded investment in impaired loans amounted to approximately $8,205,300, the allowance related to these loans is $1,288,265.

As of March 31, 2020, 23 notes receivable from 4 borrowers comprised 24.1% of the outstanding notes receivable, net of agency loans and loans funded with refundable advances. Of this total, $0 of this debt is nonrecourse.

## Note 9 - Loan administration

The Organization provides loan administration for various state, state agencies, local municipalities, nonprofit agencies, and state utilities. Fees are derived from originating loans, program administration, and from providing comprehensive portfolio services, including on bill repayment for several utility companies in the State of Connecticut. The unamortized loan principal under these programs as of March 31, 2020 was as follows:

| | |
|---|---|
| Unamortized loan principal | $ 291.7 million |
| Number of loans | 21,885 |

## Note 10 - Fee income

Fee income is derived from loan origination, servicing, and third-party contract administration, all of which tend to be recurring income. Fee income for the year ended March 31, 2020 consists of the following:

| | C4C | Eliminations | Consolidated |
|---|---|---|---|
| Loan servicing revenue | $ 2,202,788 | $ (537,000) | $ 1,665,788 |
| Loan fees | 1,189,965 | (467,675) | 722,290 |
| | $ 3,392,753 | $ (1,004,675) | $ 2,388,078 |

## Note 11 - Property and equipment

Property and equipment as of March 31, 2020 consists of the following:

| | |
|---|---|
| Land | $ 249,186 |
| Building | 911,737 |
| Building improvements | 2,950,969 |
| Office equipment | 363,388 |
| Computer equipment | 942,694 |
| Construction in progress | 92,208 |
| | 5,510,182 |
| Accumulated depreciation | (1,599,300) |
| Net property and equipment | $ 3,910,882 |

## Note 12 - Refundable advances

C4C was awarded two Urban Action Grants in prior years in the amount of $3,100,000 and $1,200,000 to fund specific community development projects in Bridgeport, Connecticut. The grant agreements allows C4C to retain the interest earned on the underlying loans receivable and if certain criteria are met a portion of the returned principal may be retained by C4C with the balance payable to the State of Connecticut. Refundable advances include the grant advances less an allowance for loan loss reserves calculated on the underlying loans receivable of $25,773 at March 31, 2020.

The State of Connecticut, Department of Economic and Community Development also provided funding under the Small Business Lending Partner Program of $377,181. The program requires C4C to return to the State of Connecticut payments of principal on the underlying loans receivable. Refundable advances include the grant advances less an allowance for loan loss reserves calculated on the underlying loans receivable of $187,990.

C4C was awarded two grants from the State of Connecticut Housing Trust Fund. The balance of $32,149 has been recorded within refundable advances at March 31, 2020.

## Note 13 - Notes payable

The Organization operates a Loan Pool capitalized with several sources: long-term low interest notes; equity equivalents with varying terms issued by the Organization in the form of capital certificates; low interest, program related investments from charitable organizations; and grants from government agencies, conventional lenders and corporations. The Organization lends funds from the Community Loan Pool at below and market rates to eligible borrowers. The loans are secured by the notes receivable and underlying mortgages funded from the Community Loan Pool.

| | |
|---|---|
| On December 24, 2019, CEEFCo has a entered into a loan payable with Amalgamated Bank in the amount of $14,994,000. The loan requires monthly payments of interest only through maturity at a variable rate equal to the Wall Street Journal prime rate with a floor of 3.00%. At March 31, 2020 the rate is 3.25%. The loan matures on December 24, 2022. | $ 14,994,000 |
| On December 24, 2019, CEEFCo has a entered into a loan payable with CT Green Bank in the amount of $3,006,000. The loan requires monthly payments of interest only through maturity at a variable rate equal to the Wall Street Journal prime rate with a floor of 3.50%. At March 31, 2020 the rate is 3.75%. The loan matures on December 24, 2022 | 3,006,000 |

During January 2014, C4C entered into a Multi-Family Permanent Loan Pool Participation Agreement (the "Participation Pool") with several funders providing short-term, low interest notes to support the creation and preservation of affordable housing and stabilizing and revitalizing low or moderate income neighborhoods.

| | |
|---|---|
| Twelve banks have committed $8,064,311 of pooled loan capital. The loans require monthly payments of interest only based on an index (Federal Home Loan Bank of Boston's Community Development Advance Rate) plus a spread of 150 basis points (1.50%) through maturity on January 1, 2026. Loans made from this pool generally have maturities of 10 years, with principal repaid to the banks according to the respective amortization schedules. The loans are secured by the notes receivable and underlying mortgages funded from the Participation Pool. | |
| A second pool agreement was created on April 1, 2018 with eleven banks committing $14,150,000. Loans from the pool generally have 10 year maturities with the same index-based rates and other terms noted above in the first pool (second pool matures at April 1, 2030). In addition, the second pool carries a loan loss reserve of 10% of the outstanding principal. Across both pools, $6,756,385 is nonrecourse to the Organization. | 7,237,285 |

| | |
|---|---|
| Synchrony Bank has an original commitment of $4,000,000 that requires quarterly payments of interest at 4.35% with all outstanding principal and interest due at maturity on April 5, 2021. C4C is subject to certain financial and performance covenants. As of March 31, 2020, an additional $449,015 was drawn down. | 4,000,000 |
| Notes payable from Social Impact investors totaling $5,152,156 at March 31, 2020 represents 79 notes payable, ranging from $1,000 to $500,000 due to individuals, religious organizations, banks and other organizations, with interest rates ranging from 0% to 3.5% per annum, with an average rate of 2.5%. The notes are payable over a period of 1 to 7 years. | 5,152,156 |
| C4C also has a loan agreement with the Connecticut Green Bank (the "CGB") up to an original aggregate amount of $1,000,000 available to fund loans under C4C's LIME Loan Program. In April 2019 and March 2020, C4C signed a second and third agreement with CGB that provides up to $2,500,000 and $1,428,207 of additional funding, respectively. Also in March 2020, these loans were brought together as part of a $7,700,000 master facility leaving approximately $2,800,000 available for future Commercial Energy funding. The repayment terms will mirror the terms of the underlying loan to qualified owners, bearing interest at 3% - 3.5%; the loan terms will range between 10-12 years. The loan is secured by the underlying notes receivable. As part of the agreement, CGB has provided funding up to $300,000 to be drawn upon to recover eligible losses under C4C's LIME Loan Program. C4C is subject to certain financial and performance covenants. | 4,472,541 |
| C4C entered into a participation agreement with Blue HUB Capital, which is secured by specific collateral. The agreement has an original commitment of $2,500,000, bears interest at 4.50% payable quarterly. Repayment is required based on the repayment of the underlying loan, with no specific repayment date. The loan was subsequently repaid on June 25, 2020. | 2,499,990 |
| Connecticut Housing Finance Authority ("CHFA") had made available a total of $2,000,000. Loan proceeds assigned to a particular loan require principal together with all interest due thereon to be paid to CHFA within 72 hours from the maturity of the underlying loan granted by C4C, but in no event later than the 240th month following the issuance of any permanent loan by C4C. The maturity of the underlying collateral is 1 to 21 years. | 1,900,200 |

| | |
|---|---|
| C4C has a line of credit with CHFA in the amount of $2,000,000. The line of credit bears interest at 3.00% payable monthly with a maturity date of March 31, 2024. | 2,000,000 |
| CHFA had made available a total of $2,000,000 for investment in the community loan pool, interest only payments were required on the outstanding balance at 3% through maturity on December 31, 2018, after which principal and interest are due in varying amounts based on the underlying loans. | 888,426 |
| C4C participates in CHFA's program to provide Community Development Financial Institutions with financing for small multifamily project loans. CHFA advances up to $500,000 per approved project to eligible participants at an interest rate of 2% for up to 20 years. Under this program, C4C may lend to end borrowers at no more than 5% for up to 20 years. C4C has borrowed $2,964,779 as of March 31, 2020 for fourteen loans. These notes are payable with varying terms ranging from 20 to 21 | 2,964,779 |
| United Bank has provided a credit line of $3,000,000; the loan provides for draws through March 1, 2020, which has been extended through March 1, 2021. Interest only is due monthly at varying interest rates based on the dates of the advances; at March 31, 2020, the interest rates were 3.28% - 5.47%. Principal payments are due 18 months from original draw date of June 21, 2018. The loan is secured by the underlying loans funded with the proceeds. | 3,000,000 |
| TD Bank has a commitment of $1,000,000, bears interest at 5.71% payable in monthly installments of principal and interest with the principal due on December 31, 2028. The loan is secured by the underlying collateral of the funded loans. | 942,984 |
| C4C entered into a note agreement with Housing Development Fund, Inc. The note is a non-recourse loan at an interest rate of 3.34%. Commencing on December 31, 2017 and on the first day of each month thereafter until May 1, 2019, monthly payments of interest only are due. Commencing on June 1, 2019 (the "Conversation Date") and on the first day of each month thereafter, and continuing until January 1, 2031 (the "maturity Date"), monthly payments of principal and interest in an amount sufficient to fully amortize the outstanding balance of this note are due. | 799,624 |

| | |
|---|---|
| C4C entered into a note agreement with TD Bank in the amount of $1,000,000. The note bears interest at Federal Home Loan Bank ("FHLB") Classic Rate plus 2.5% (3.59% at March 31, 2020) payable monthly with a maturity of August 1, 2030. | 1,000,000 |
| On February 23, 2018, C4C entered into a note agreement with Farmington Bank, now People's United Bank. The note has an original commitment of $1,740,000 for a construction period of 18 months, secured by 10 Alexander Drive, Wallingford, CT; 121 Tremont Street, Hartford, CT and a $250,000 CD. On September 1, 2019, the loan converted to a conventional loan requiring principal and interest payments monthly, at an interest rate of 5%, until maturity on March 1, 2038. As of March 31, 2020, additional draws on the loan were $936,667. | 1,715,508 |
| Opportunity Finance Network ("OFN") has an original commitment of $1,000,000 to fund loans under C4C's Low Income Multifamily Energy ("LIME") Loan Program that requires quarterly payments of principal and interest at 3% fully amortizing through maturity on June 30, 2022. In October 2019, OFN provided an additional commitment of $500,000 that requires monthly payments of interest at 3.25% through October 2022. C4C is subject to certain financial and performance covenants. OFN subsequently provided a deferral of interest payments until December 2020. | 783,517 |
| C4C entered into a note agreement with Key Bank. The note has an original commitment of $700,000, bears interest at 4.750% payable quarterly with a maturity of April 20, 2025. | 375,856 |
| People's United Bank has an original commitment of $750,000, bears interest at 6% payable in quarterly installments of principal and interest with the principal due on May 1, 2027. The note requires repayment based on early repayment of the underlying notes receivable funded by the loan proceeds. The loan is secured by the underlying collateral of the funded loans. | 160,872 |
| The Connecticut Trust for Historic Preservation has an original commitment of $200,000, bears interest at 3% payable monthly with a maturity date of December 31, 2024. In 2020, C4C received an additional commitment of $50,000 under same terms. | 250,000 |

| | |
|---|---|
| The City of Bridgeport has an original commitment of $1,690,000 that requires monthly payments of principal and interest at 4.95% - 6.42% fully amortizing through maturity on July 31, 2016. C4C is subject to certain financial reporting and performance covenants. | 83,455 |
| Note payable to State of Connecticut Department of Economic and Community Development ("DECD") is non-interest bearing and payable at maturity, July 1, 2033. The loan is secured by the loans receivable and underlying mortgages funded from the proceeds. The loan is a liability of CT CDFI. | 1,483,000 |
| | 59,710,193 |
| Less debt issuance costs | (120,000) |
| | $ 59,590,193 |

Debt issuance costs, net of accumulated amortization, totaled $120,000 as of March 31, 2020 and are related to notes payable with Amalgamated Bank and the CT Green Bank in the amounts of $100,000 and $20,000, respectively. Debt issuance costs on the above notes are being amortized on a straight-line basis, which is not materially different than the effective yield method required by GAAP. Amortization expense related to these fees was $15,000 for the year ended March 31, 2020. In addition, amortization expense related to debt issuance costs for the CT CDFI DECD note payable was $3,620 and were fully amortized for the year ended March 31, 2020.

An equity equivalent investment ("EQ2") is unsecured debt that is subordinate and junior in right of payment to all other organizational financial obligations both currently and subsequently incurred, but pari passu with other similar subordinated debt or equity equivalent investments, whether currently or subsequently incurred. An EQ2 is defined by the following attributes:

1. The investor carries it on their books as an investment according to GAAP;
2. It is a general obligation that is not secured by any assets;
3. It is fully subordinated to the right of repayment of all other creditors;
4. It does not give the investor the right to accelerate payment unless the organization ceases its normal operations (i.e. changes its line of business);
5. It carries an interest rate that is not tied to any income received by the organization; and
6. The maturity has a rolling term and therefore, an indeterminate maturity.

Investors may restrict their investment in the Community Loan Pool, or may contribute to the Community Loan Pool without specifying restrictions.

C4C uses its EQ2s to fund loans and pays its EQ2 investors interest-only payments semiannually. Annually or upon maturity, the terms of the underlying agreements allow for the investment to renew for the same term if notice not to extend the maturity is not received by either party.

| Lender | Renewal terms | Interest rate | Initial date | Maturity date | Amount |
|---|---|---|---|---|---|
| Citizens Bank | 3 years | 2.50% | 09/25/12 | 03/31/23 | $ 1,250,000 |
| Webster Bank | 5 years | 2.00% | 03/19/11 | 07/01/21 | 750,000 |
| TD Bank | Rolling 10-years | 2.00% | 01/01/14 | 12/31/25 | 750,000 |
| People's Bank | Rolling 10 years | 2.00% | 06/07/18 | 06/30/28 | 1,250,000 |
| M & T Bank | 3 years | 2.00% | 09/15/06 | 09/15/21 | 250,000 |
| Farmington Bank | Rolling 10-years | 2.00% | 07/31/13 | 07/31/23 | 250,000 |
| Laurel Road Bank | Rolling 10-years | 2.00% | 05/10/17 | 06/30/27 | 250,000 |
| Laurel Road Bank | Rolling 10-years | 2.00% | 11/27/18 | 12/31/28 | 50,000 |
| TD Bank | Rolling 10-years | 2.00% | 07/01/11 | 07/01/21 | 300,000 |
| | | | | | $ 5,100,000 |

The minimum annual payment requirements on notes payable for the five years subsequent to March 31, 2020 and thereafter are as follows:

| | |
|---|---|
| 2021 | $ 6,714,264 |
| 2022 | 29,696,963 |
| 2023 | 4,736,590 |
| 2024 | 3,644,697 |
| 2025 | 2,413,597 |
| Thereafter | 17,604,082 |
| | $ 64,810,193 |

Interest expense for the year ended March 31, 2020 was $2,195,722.

## Note 14 - Deferred revenue

C4C entered into a Financing Program Agreement with the Connecticut Green Bank ("CGB") and various contractors, that provides for an interest rate buy back on qualified energy loans to consumers for loans closed and funded prior to December 31, 2017. CEEFCo underwrites, approves and funds energy loans; CGB reviews and approves the loans for compliance with the program loan terms. CGB then funds the interest rate buy down ("IRB") with a lump-sum payment based on the net present value of the difference between the stated loan rate and 1%. Interest income recognized for the year ended March 31, 2020 was $360,701 and deferred revenue related to the IRB was $1,577,955.

## Note 15 - Concentrations

### Concentrations of risk

Financial instruments that potentially subject the Organization to concentrations of credit risk consist primarily of cash. The Organization maintains cash and cash equivalent balances in several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation. From time to time, the Organization's balances may exceed these limits. At March 31, 2020, C4C's

### Fee income concentration

The Organization receives loan servicing fee income from a variety of sources. Approximately 60% of fee income for loan servicing is derived from two sources, 50% is comprised of approximately thirty separate contracts with one organization and 10% is from a second organization, both of which are government entities. Total fee income for the year ended March 31, 2020 from these two entities was approximately $821,375.

## Note 16 - Net assets with donor restrictions

Net assets with donor restrictions are donor-restricted grants/contributions earmarked for particular financing types of loans relating to housing and community development, or for operating activities. In some operating years, net assets released from restrictions will exceed grants received due to timing issues; the resulting negative change in net assets does not indicate an operational net loss.

| | Net assets with donor restrictions 3/31/2019 | 2020 Grants/Program income | 2020 Release of restrictions | Net assets with donor restrictions 3/31/2020 |
|---|---|---|---|---|
| Loan and subsidy activities | $ 15,298,731 | $ 800,000 | $ (1,443,704) | $ 14,655,027 |
| CDBG | 277,408 | - | - | 277,408 |
| DECD | 1,165,617 | - | - | 1,165,617 |
| EDA | 1,674,463 | 66,156 | - | 1,740,619 |
| | $ 18,416,219 | $ 866,156 | $ (1,443,704) | $ 17,838,671 |

Net assets were released from restrictions by incurring expenses satisfying the purpose restrictions for the year ended March 31, 2020.

Net assets provided by CDBG, DECD, EDA and various other grantors are donor-restricted grants that must be maintained by C4C as part of the revolving loan fund. Generally, the donors of these assets permit C4C to use all or part of the income earned on any related investments for general or specific purposes; additionally, loan loss reserves and other approved expenses can be charged against the principal. Funding agencies include the City of Bridgeport funding under a Community Development Block Grant ("CDBG") and under the provisions of an Economic Development Administration Grant ("EDA") and the State of Connecticut, Department of Economic and Community Development under the Community Capital Housing Loan Program ("DECD"). CEEFCo's net assets with donor restrictions consists of funds received for an energy efficiency program. The funds are to be used for origination and to fund residential loans, establish a loan loss reserve, post collateral with other lenders, pay related fees and effect interest rate buy-downs. All principal and interest payments received on these loans must be returned to this account. All interest income on the uncommitted funds must be returned to this account. Cash restricted for CEEFCo loan pool activities is maintained in a separate cash account.

## Note 17 - State Housing Tax Credit Contribution Program ("HTCC")

The Organization's activity for CHFA Project numbers 17-806HTCC and 18-806HTCAC HTCC as of March 31, 2020 were as follows:

| | 17-806HTCC | 18-806HTCAC HTCC |
|---|---|---|
| HTCC funds received | $ 500,000 | $ 500,000 |
| Loans disbursed: | | |
| Home rehabilitation loans | $ 38,000 | $ 500,000 |
| New construction loans | 462,000 | - |
| | $ 500,000 | $ 500,000 |

## Note 18 - Leasing

The Organization leases certain property and equipment under noncancellable operating leases. Rent expense pertaining to these lease agreements was $107,665 for the year ended March 31, 2020. The leases provide for aggregate monthly payments of approximately $9,000 expiring on varying dates through 2023.

Future minimum lease payments over the next three years are as follows:

| | |
|---|---|
| 2021 | $ 61,529 |
| 2022 | 57,555 |
| 2023 | 6,041 |
| | $ 125,125 |

## Note 19 - Employee pension plan

C4C maintains a Defined Contribution Retirement Plan under Section 403(b) of the Code, covering all employees who have completed ninety days of service. Each year the participants may contribute up to the amount designated by the Economic Growth and Tax Relief Reconciliation Act of 2001, based on the participant's age. C4C, by action of its Board of Directors, shall determine the amount, if any, of the discretionary employer contributions. Total employer contributions to the plan for the year ended March 31, 2020 was $89,449.

## Note 20 - Commitments and contingencies

As of March 31, 2020, the Organization had undrawn funds on closed loans totaling $789,999 and undrawn lines of credit commitments of $2,067,900. The Organization had loan commitments of $3,307,744 at March 31, 2020. Cash available to fund these commitments totaled $5,346,668, of which $3,472,086 was available in the loan fund and $1,874,582 was available in the operating fund. Additionally, C4C has undrawn funds on various lines of credit, see Notes 4 and 13.

C4C is a party to financial instruments with off balance sheet risk in the normal course of business to meet the financing needs of its customers and include commitments to extend credit. These instruments involve, in varying degrees, elements of credit risk in excess of amounts recognized in the accompanying consolidated statement of financial position. The contract of notional amounts of these instruments reflect the extent of C4C's involvement in particular classes of financial instruments.

Commitments to extend credit are agreements to lend to a customer as long as there is no violation of any condition established in the contract. Loan commitments are subject to the same credit policies as loans and generally have fixed expiration dates or other termination clauses. Since commitments may expire without being drawn upon, the total commitment amounts do not necessarily represent future cash requirements. C4C evaluates each customer's creditworthiness on a case-by-case basis. The amount of collateral obtained is based on management's credit evaluation of the counterparty. Collateral held is primarily business and residential real property. Interest rates are generally variable with the exception of the unadvanced portions of construction loans, which have fixed rates of interest.

**Note 21 - Related party transactions**

Relatives of C4C's Director of Commercial Lending have made a loan to C4C to support the Community Loan Pool. The note bears an annual interest rate of 2.5% with principal and interest due on January 31, 2021. As of March 31, 2020, the outstanding balance on the loan was $50,000.

Three board members have loaned C4C $100,000, $20,000, and $1,000 respectively, to support the Community Loan Pool. The notes have annual interest rates of 3%, 2.5%, and 1% respectively. Interest is paid annually on the anniversary of the loans (June 1, December 1, and April 15, respectively). Maturities will occur on the anniversary dates in 2022, 2021, and 2022, respectively.

Two employees of C4C have made loans of $100,000 and $1,000 to support the Community Loan Pool. Each note has an interest rate of 3% maturing on December 15, 2022. Interest is paid annually on the anniversary date with principal due back at maturity.

C4C has a note receivable in the amount of $3,000,000 due from an entity in which C4C's wholly owned subsidiary owns a .001% interest. The note bears interest at a rate of 4.5% with interest only payments through maturity, which has been extended through June 2020. The note receivable has been repaid as of June 24, 2020. See Note 23 - Subsequent events.

**Note 22 - Federal and state assistance programs**

C4C participates in a number of federal and state assisted grant programs. The use of grants in programs is subject to future review by grantors. Such review may result in C4C having liabilities to the grantors.

**Note 23 - Subsequent events**

In early 2020, an outbreak of a novel strain of coronavirus emerged globally. As a result, events have occurred including mandates from federal, state and local authorities leading to an overall decline in economic activity which could result in a loss of revenue and other material adverse effects to C4C's financial position, results of operations, and cash flows. C4C is not able to reliably estimate the length or severity of this outbreak and the related financial impact.

On May 1, 2020, C4C drew down an additional $344,816 from the MPLP2 loan pool to fund additional loans.

On June 24, 2020, C4C, through its wholly owned subsidiary, C4C Historic Pearl, received proceeds from the sale of State of Connecticut historic tax credits in the amount of $3,859,448 These proceeds will be used to fund a loan to a related party in the same amount.

**Supplementary Information**

## Capital for Change, Inc. and Affiliated Organizations

## Consolidating Statement of Financial Position
## March 31, 2020

| Assets | C4C | CEEFCo | CT CDFI | Eliminations | Total |
|---|---|---|---|---|---|
| Current assets | | | | | |
| Cash | $ 2,195,207 | $ - | $ - | $ - | $ 2,195,207 |
| Restricted cash | 7,375,743 | 3,025,539 | - | - | 10,401,282 |
| Accounts receivable, net | 1,074,306 | 31,934 | - | (96,104) | 1,010,136 |
| Grants receivable | 150,000 | - | - | - | 150,000 |
| Interest receivable | 446,131 | 98,704 | - | - | 544,835 |
| Loans receivable, current | 8,697,044 | - | - | - | 8,697,044 |
| Prepaid expenses | 66,174 | 7,922 | - | - | 74,096 |
| Total current assets | 20,004,605 | 3,164,099 | - | (96,104) | 23,072,600 |
| Property and equipment, net | 3,910,882 | - | - | - | 3,910,882 |
| Other assets | | | | | |
| Investments | 899,031 | - | - | - | 899,031 |
| Loans receivable, net of current portion | 50,737,632 | 28,971,156 | - | - | 79,708,788 |
| Loan loss reserves | (3,973,752) | (286,506) | - | - | (4,260,258) |
| Loans receivable - agency assets | 34,773,992 | - | - | - | 34,773,992 |
| Other assets | 12,920 | - | - | - | 12,920 |
| Total other assets | 82,449,823 | 28,684,650 | - | - | 111,134,473 |
| Total assets | $ 106,365,310 | $ 31,848,749 | $ - | $ (96,104) | $ 138,117,955 |

**Capital for Change, Inc. and Affiliated Organizations**

**Consolidating Statement of Financial Position**
**March 31, 2020**

| Liabilities and Net Assets (Deficit) | C4C | CEEFCo | CT CDFI | Eliminations | Total |
|---|---|---|---|---|---|
| Current liabilities | | | | | |
| Accounts payable and accrued expenses | $ 506,619 | $ 200,782 | $ - | $ (96,104) | $ 611,297 |
| Accrued interest payable | 74,199 | - | - | - | 74,199 |
| Escrows | 3,062,372 | - | - | - | 3,062,372 |
| Deferred revenue | - | 331,000 | - | - | 331,000 |
| Current portion of long-term debt | 6,714,264 | - | - | - | 6,714,264 |
| Total current liabilities | 10,357,454 | 531,782 | - | (96,104) | 10,793,132 |
| Long-term liabilities | | | | | |
| Refundable advances | 4,521,340 | - | - | - | 4,521,340 |
| Deferred revenue | 705,167 | 1,246,955 | - | - | 1,952,122 |
| Notes payable, net of deferred financing fees | 33,512,928 | 17,880,000 | 1,483,001 | - | 52,875,929 |
| Notes payable - EQ2 | 5,100,000 | - | - | - | 5,100,000 |
| Agency liabilities | 35,250,495 | - | - | - | 35,250,495 |
| Total long-term liabilities | 79,089,930 | 19,126,955 | 1,483,001 | - | 99,699,886 |
| Total liabilities | 89,447,384 | 19,658,737 | 1,483,001 | (96,104) | 110,493,018 |
| Net assets (deficit) | | | | | |
| Without donor restrictions | 11,269,267 | - | (1,483,001) | - | 9,786,266 |
| With donor restrictions | 5,648,659 | 12,190,012 | - | - | 17,838,671 |
| Total net assets (deficit) | 16,917,926 | 12,190,012 | (1,483,001) | - | 27,624,937 |
| Total liabilities and net assets (deficit) | $ 106,365,310 | $ 31,848,749 | $ - | $ (96,104) | $ 138,117,955 |

See Independent Auditor's Report.

## Capital for Change, Inc. and Affiliated Organizations

## Consolidating Statement of Activities and Changes in Net Assets
## Year Ended March 31, 2020

| | C4C | | | CEEFCo | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Without donor restrictions | With donor restrictions | Total | Without donor restrictions | With donor restrictions | Total | CT CDFI | Eliminations | Total |
| Revenue and support | | | | | | | | | |
| Loan interest activity | $ 2,915,043 | $ 66,156 | $ 2,981,199 | $ 1,206,973 | $ - | $ 1,206,973 | $ 1,195 | $ - | $ 4,189,367 |
| Loan servicing revenue | 2,202,788 | - | 2,202,788 | - | - | - | - | (537,000) | 1,665,788 |
| Loan fees | 1,189,965 | - | 1,189,965 | - | - | - | - | (467,675) | 722,290 |
| Grants and contributions | 1,272,211 | - | 1,272,211 | - | 800,000 | 800,000 | - | - | 2,072,211 |
| Interest income - investments | 25,973 | - | 25,973 | 18,284 | - | 18,284 | - | - | 44,257 |
| Recovery of loan losses | 4,813 | - | 4,813 | - | - | - | - | - | 4,813 |
| Net assets released from restrictions | 277,974 | (277,974) | - | 1,165,730 | (1,165,730) | - | - | - | - |
| Total revenue and support | 7,888,767 | (211,818) | 7,676,949 | 2,390,987 | (365,730) | 2,025,257 | 1,195 | (1,004,675) | 8,698,726 |
| Expenses | | | | | | | | | |
| Program | 6,558,156 | - | 6,558,156 | 1,871,988 | - | 1,871,988 | - | (537,000) | 7,893,144 |
| General and administrative | 811,036 | - | 811,036 | 518,999 | - | 518,999 | 1,979 | (467,675) | 864,339 |
| Fundraising | 244,293 | - | 244,293 | - | - | - | - | - | 244,293 |
| Total expenses | 7,613,485 | - | 7,613,485 | 2,390,987 | - | 2,390,987 | 1,979 | (1,004,675) | 9,001,776 |
| Changes in net assets | 275,282 | (211,818) | 63,464 | - | (365,730) | (365,730) | (784) | - | (303,050) |
| Net assets (deficit), beginning | 10,993,985 | 5,860,477 | 16,854,462 | - | 12,555,742 | 12,555,742 | (1,482,217) | - | 27,927,987 |
| Net assets (deficit), end | $ 11,269,267 | $ 5,648,659 | $ 16,917,926 | $ - | $ 12,190,012 | $ 12,190,012 | $ (1,483,001) | $ - | $ 27,624,937 |

See Independent Auditor's Report.

# Capital for Change, Inc. and Affiliated Organizations

## Consolidating Statement of Functional Expenses
## Year Ended March 31, 2020

| | C4C | | | CEEFCo | | CT CDFI | Total | | |
|---|---|---|---|---|---|---|---|---|---|
| | Program | General and Administrative | Fundraising | Program | General and Administrative | General and Administrative | Program | General and Administrative | Fundraising |
| Expenses | | | | | | | | | |
| Personnel costs | $ 2,569,550 | $ 332,429 | $ 144,581 | $ - | $ - | $ - | $ 2,569,550 | $ 332,429 | $ 144,581 |
| Employee benefits | 582,078 | 45,262 | 48,190 | - | - | - | 582,078 | 45,262 | 48,190 |
| Insurance | 62,526 | 34,289 | 2,017 | 15,609 | - | - | 78,135 | 34,289 | 2,017 |
| Lending interest expense | 1,371,978 | - | - | 823,744 | - | - | 2,195,722 | - | - |
| Provision for loan losses | 714,952 | - | - | 426,082 | - | - | 1,141,034 | - | - |
| Bad debts | 2,479 | - | - | - | - | - | 2,479 | - | - |
| Loan servicing expenses | 92,916 | - | - | - | - | - | 92,916 | - | - |
| Grant expenses | 635 | - | 19,500 | - | - | - | 635 | - | 19,500 |
| Building repairs and maintenance | 40,480 | 22,198 | 1,306 | - | - | - | 40,480 | 22,198 | 1,306 |
| Occupancy expense | 127,162 | 69,735 | 4,102 | - | - | - | 127,162 | 69,735 | 4,102 |
| Professional services | 453,139 | 129,468 | 5,885 | 599,474 | - | 1,000 | 1,052,613 | 130,468 | 5,885 |
| Technology | 118,459 | 16,480 | 969 | - | - | - | 118,459 | 16,480 | 969 |
| Miscellaneous expenses | - | - | - | 7,079 | - | - | 7,079 | - | - |
| Depreciation | 181,502 | 99,533 | 5,855 | - | - | - | 181,502 | 99,533 | 5,855 |
| Administrative expenses | 142,253 | 35,022 | 10,322 | - | 518,999 | 287 | 142,253 | 554,308 | 10,322 |
| Postage | 42,822 | 827 | 49 | - | - | - | 42,822 | 827 | 49 |
| Telephone | 22,479 | 8,617 | 507 | - | - | - | 22,479 | 8,617 | 507 |
| Office expense | 24,658 | 12,740 | 749 | - | - | 692 | 24,658 | 13,432 | 749 |
| Office equipment | 8,088 | 4,436 | 261 | - | - | - | 8,088 | 4,436 | 261 |
| | 6,558,156 | 811,036 | 244,293 | 1,871,988 | 518,999 | 1,979 | 8,430,144 | 1,332,014 | 244,293 |
| Eliminations | - | - | - | (537,000) | (467,675) | - | (537,000) | (467,675) | - |
| Total expenses | $ 6,558,156 | $ 811,036 | $ 244,293 | $ 1,334,988 | $ 51,324 | $ 1,979 | $ 7,893,144 | $ 864,339 | $ 244,293 |

See Independent Auditor's Report.

## Capital for Change, Inc. and Affiliated Organizations

## Consolidating Statement of Cash Flows
## Year Ended March 31, 2020

| | C4C | CEEFCo | CT CDFI | Eliminations | Total |
|---|---|---|---|---|---|
| Cash flows from operating activities | | | | | |
| Changes in net assets | $ 63,464 | $ (365,730) | $ (784) | $ - | $ (303,050) |
| Adjustments to reconcile changes in net assets to net cash provided by (used in) operating activities | | | | | |
| Depreciation | 286,890 | - | - | - | 286,890 |
| Amortization of debt issuance costs | - | 15,000 | 3,620 | - | 18,620 |
| Accretion of deferred revenue | - | 360,701 | - | - | 360,701 |
| Unrealized (gain) loss on investments | 12,468 | - | - | - | 12,468 |
| Realized (gain) loss on investments | (30,652) | - | - | - | (30,652) |
| Provision for loan loss reserve | 807,868 | 426,082 | - | - | 1,233,950 |
| Bad debts | 2,479 | - | - | - | 2,479 |
| Changes in operating assets and liabilities | | | | | |
| Accounts receivable | 112,229 | 14,187 | - | - | 126,416 |
| Grants receivable | (150,000) | - | - | - | (150,000) |
| Interest receivable | (136,993) | (17,608) | - | - | (154,601) |
| Loans receivable | (6,849,408) | (2,962,743) | - | - | (9,812,151) |
| Prepaid expenses | 41,732 | 6,431 | - | - | 48,163 |
| Other assets | 14,527 | - | - | - | 14,527 |
| Accounts payable and accrued expenses | 196,044 | 95,731 | (25,733) | 43,904 | 309,946 |
| Deferred revenue | 705,167 | (501,119) | - | - | 204,048 |
| Net cash provided by (used in) operating activities | (4,924,185) | (2,929,068) | (22,897) | 43,904 | (7,832,246) |
| Cash flows from investing activities | | | | | |
| Purchase of property and equipment | (2,206,985) | - | - | - | (2,206,985) |
| Restricted cash | (1,064) | (320,625) | - | - | (321,689) |
| Escrows | (1,117,971) | - | - | - | (1,117,971) |
| Due from affiliate | 1,275,191 | - | - | (1,275,191) | - |
| Purchase of investments | (528,362) | - | - | - | (528,362) |
| Net cash provided by (used in) investing activities | (2,579,191) | (320,625) | - | (1,275,191) | (4,175,007) |

## Capital for Change, Inc. and Affiliated Organizations

## Consolidating Statement of Cash Flows
## Year Ended March 31, 2020

| | C4C | CEEFCo | CT CDFI | Eliminations | Total |
|---|---|---|---|---|---|
| Cash flows from financing activities | | | | | |
| Due to affiliate | - | (1,231,287) | - | 1,231,287 | - |
| Agency funds disbursed | (24,176) | - | - | - | (24,176) |
| Payment of debt issuance costs | - | (135,000) | - | - | (135,000) |
| Repayment of notes payable | (5,931,473) | (11,133,334) | - | - | (17,064,807) |
| Proceeds from notes payable | 15,270,774 | 18,000,000 | - | - | 33,270,774 |
| Net cash provided by (used in) financing activities | 9,315,125 | 5,500,379 | - | 1,231,287 | 16,046,791 |
| Net increase (decrease) in cash and restricted cash | 1,811,749 | 2,250,686 | (22,897) | - | 4,039,538 |
| Cash and restricted cash, beginning | 7,653,000 | 454,228 | 22,897 | - | 8,130,125 |
| Cash and restricted cash, end | $ 9,464,749 | $ 2,704,914 | $ - | $ - | $ 12,169,663 |
| Supplemental disclosure of cash flow information | | | | | |
| Cash paid during the year for interest | $ 1,366,439 | $ 823,744 | $ - | $ - | $ 2,190,183 |

See Independent Auditor's Report.

## Capital for Change, Inc. and Affiliated Organizations

## Supplementary Financial Data Templates
## March 31, 2020

Capital for Change - 78642-0000-7

**Balance Sheet - Assets**

| Line Item # | Title | Value |
|---|---|---|
| 100 | Cash and Cash Equivalents | $ 2,195,207 |
| 101 | Escrow deposit Cash | $ 5,767,286 |
| 102 | Restricted Cash / Compensating Balances (section 2-6, chpt 2 handbook 4060.1) | $ 1,608,457 |
| 103 | Trading Account Securities | $ - |
| 104 | Net Mortgage Servicing Rights | |
| 105 | Other Real Estate Owned at Net Realizable Value | $ 3,910,882 |
| 106 | Loans Held for Investment | $ 59,434,676 |

**Balance Sheet - Unacceptable Assets**

| Line Item # | Title | Value |
|---|---|---|
| 200 | Pledged Assets | $ - |
| 201 | Assets Due from an Officer, Stockholder, or Related Entity | $ 96,104 |
| 202 | Personal Interest Investment | $ - |
| 203 | Investment in Related Entity, Greater than Equity As Adjusted | $ - |
| 204 | Intangible Assets, Net of Amortization | $ - |
| 205 | Value of Servicing Contract not in Accordance with ASC 948 and ASC 860 | $ - |
| 206 | Assets not Readily Marketable | $ 15,000 |
| 207 | Marketable Security in Excess of Cost or Market | $ - |
| 208 | Amount in Excess of Foreclosure Value | $ - |
| 209 | Assets used for Personal Enjoyment | $ - |
| 210 | Other Unacceptable Assets | $ 2,537,458 |
| 211 | Contributed Property in Excess of Appraised Value | $ - |
| 212 | Total Unacceptable Assets | $ 2,648,562 |

**Balance Sheet - Liability**

| Line Item # | Title | Value |
|---|---|---|
| 300 | Escrows Payable | $ 3,062,372 |

## Capital for Change, Inc. and Affiliated Organizations

## Supplementary Financial Data Templates
## Year Ended March 31, 2020

### Statement of Operations and Equity - Revenue

| Line Item # | Title | Value |
|---|---|---|
| 400 | Gross Interest Income | $ 2,981,199 |
| 401 | Net Marketing Gain (Loss) on Loans and MBS sold with servicing retained | $ - |
| 402 | Net Marketing Gain (Loss) on Loans and MBS sold with servicing released including the Servicing Release Premium | $ - |
| 403 | Net Gain (Loss) on Sales of Servicing Rights | $ - |
| 404 | Net Gain (Loss) from Servicing Valuations | $ - |
| 405 | Net Gain (Loss) on Sale of Securities | $ - |
| 406 | Net Gain (Loss) on Sale of OREO | $ - |
| 407 | Retail Origination Fees | $ - |
| 408 | Net Loan Administration Income | $ 3,392,753 |
| 409 | Correspondent and Broker Fee Income | $ - |
| 410 | Other Retail Origination Income | $ - |
| 411 | Other Income (Loss) Related To Mortgage Lending Activities | $ 1,302,997 |
| 412 | Other Income (Loss) Not Related To Mortgage Lending Activities | |
| 413 | Total Revenue | $ 7,676,949 |

### Statement of Equity

| Line Item # | Title | Value |
|---|---|---|
| 500 | Balance at Beginning of the Year, as Reported | $ 16,854,462 |
| 501 | Prior Period Adjustments | $ - |
| 502 | Balance at Beginning of the Year, Restated | $ 16,854,462 |
| 503 | Net Income | $ 63,464 |
| 504 | Dividend / Distribution | $ - |
| 505 | Contributions - from Cash Flow Statement | $ - |
| 506 | Contributions - non-cash | $ - |
| 507 | Other Equity | $ - |
| 508 | Ending Balance | $ 16,917,926 |

## Capital for Change, Inc. and Affiliated Organizations

## Supplementary Financial Data Templates
## March 31, 2020

### Net Worth

| Line Item # | Title | Value |
|---|---|---|
| 600 | FHA Servicing Portfolio | $ 5,960,397 |
| 601 | FHA Originations | $ - |
| 602 | FHA Purchases | $ - |
| 603 | Subtotal - FHA Loan Activity | $ 5,960,397 |
| 604 | FHA Origination Servicing Retained | $ - |
| 605 | FHA Purchase Servicing Retained | $ - |
| 606 | Subtotal - Servicing Retained Adjustments | $ - |
| 607 | Total Adjusted FHA Loan Activity | $ 5,960,397 |
| 608 | Net Worth Required Baseline | $ 1,000,000 |
| 609 | Additional Net Worth Required | $ - |
| 610 | Total Minimum Net Worth Required | $ 1,000,000 |
| 611 | Stockholder Equity - Ending Balance | $ 16,917,926 |
| 612 | Total Unacceptable Assets | $ 2,648,562 |
| 613 | Adjusted Net Worth | $ 14,269,364 |
| 614 | Adjusted Net Worth Above/Below Required Minimum Amount | $ 13,269,364 |

### Liquidity

| Line Item # | Title | Value |
|---|---|---|
| 700 | Cash and Cash Equivalents | $ 2,195,207 |
| 701 | Trading Account Securities | $ - |
| 702 | Total of Liquid Assets per HUD Guidelines | $ 2,195,207 |
| 703 | Liquid Assets Required | $ 200,000 |
| 704 | Liquid Assets Above/Below Required Amount | $ 1,995,207 |

## Capital for Change, Inc. and Affiliated Organizations

## Schedule of Expenditures of Federal Awards
## Year Ended March 31, 2020

| Federal grantor/pass through grantor/program or cluster title | Federal CFDA number | Pass-through entity identifying number | Passed through to subrecipients | Federal expenditures |
|---|---|---|---|---|
| United States Department of Housing and Urban Development | | | | |
| Passed through Connecticut Housing Finance Authority | | | | |
| Title II Nonsupervised Mortgages | 14.XXX | | $ - | $ 7,161,125 |
| United States Department of Commerce | | | | |
| Passed through the City of Bridgeport | | | | |
| Economic Development Cluster | | | | |
| Economic Adjustment Assistance | | | | |
| EDA Revolving Loan Fund ("RLF") Grant - Total Economic Development Cluster | 11.307 | | - | 1,304,729 |
| United States Department of the Treasury | | | | |
| Community Development Financial Institutions Program | 21.020 | | - | 650,000 |
| Total Expenditures of Federal Awards | | | $ - | $ 9,115,854 |

See Notes to Schedule of Expenditures of Federal Awards.

## Notes to Schedule of Expenditures of Federal Awards
## March 31, 2020

### Note 1 - Basis of presentation

The accompanying schedule of expenditures of federal awards (the "Schedule") includes the federal award activity of Capital for Change, Inc. and Affiliated Organizations under programs of the federal government for the year ended March 31, 2020. The information in this Schedule is presented in accordance with the requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Because the Schedule presents only a selected portion of the operations of Capital for Change, Inc. and Affiliated Organizations, it is not intended to and does not present the financial position, changes in net assets, or cash flows of Capital for Change, Inc. and Affiliated Organizations.

### Note 2 - Summary of significant accounting policies

Expenditures reported on the Schedule are reported on the accrual basis of accounting. Such expenditures are recognized following the cost principles contained in the Uniform Guidance, wherein certain types of expenditures are not allowable or are limited as to reimbursement. Capital for Change, Inc. has elected not to use the 10-percent de minimis indirect cost rate allowed under the Uniform Guidance.

### Note 3 - Federal Housing Administration loan program

Federal expenditures of $5,960,397 represent outstanding loan balances serviced by Capital for Change, Inc. and Affiliated Organizations for other lenders. There were no additions to the portfolio for the year ended March 31, 2020. Compliance requirements tested that were direct and material to the FHA loan program included the quality control plan, loan servicing, federal financial and activity reports, lender annual recertification, adjusted net worth, liquidity and licensing and escrow accounts.

## Note 4 - Economic Adjustment Assistance - Revolving Loan Fund ("RLF")

The RLF capital base is defined as the value of EDA RLF assets administered by the recipient. It is equal to the amount of grant funds used to capitalize the fund, plus the matching funds committed to the RLF at the time of the award (and any subsequent additions, but not withdrawals), plus RLF income added to the fund, less loan losses, less disallowances, plus voluntary contributed capital. The RLF capital is required to be used for the purpose of making RLF loans that are consistent with the recipient's RLF Plan. The expenditure of federal awards for the year ended March 31, 2020 is the total of the balance of RLF loans outstanding at the end of the year plus the cash balance plus administrative expenses paid plus the unpaid principal balance of all EDA loans written off during the year divided by the federal participation rate. The balance of $1,304,729 is calculated as follows:

| | |
|---|---|
| Loan receivable outstanding | $ 1,469,306 |
| Cash balance | 271,313 |
| Administrative fees | 20,862 |
| Write offs | - |
| | $ 1,761,481 |
| Calculation of Federal share of the RLF: | |
| Federal EDA funds | 1,000,000 |
| Federal EDA funds + Match | 1,350,000 |
| Federal participation rate | 74.07% |
| Federal share | $ 1,304,729 |

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*

To the Board of Directors
Capital for Change, Inc.

We have audited the consolidated financial statements of Capital for Change, Inc. and Affiliated Organizations (nonprofit organizations), which comprise the consolidated statement of financial position as of March 31, 2020, and the related consolidated statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the consolidated financial statements, and have issued our report thereon dated June 29, 2020. We conducted our audit in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. The financial statements of Connecticut Energy Efficiency Finance Company and Connecticut CDFI Alliance were not audited in accordance with *Government Auditing Standards*, and accordingly, this report does not include reporting on internal control over financial reporting or instances of reportable noncompliance associated with Connecticut Energy Efficiency Finance Company and Connecticut CDFI Alliance.

Internal Control over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered Capital for Change, Inc. and Affiliated Organizations' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of Capital for Change, Inc. and Affiliated Organizations' internal control. Accordingly, we do not express an opinion on the effectiveness of Capital for Change, Inc. and Affiliated Organizations' internal control.

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

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as Finding 2020-001 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Capital for Change, Inc. and Affiliated Organizations' consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and questioned costs as Finding 2020-001.

Capital for Change, Inc. and Affiliated Organizations' Response to Finding

Capital for Change, Inc. and Affiliated Organizations' response to the finding identified in our audit is described in the accompanying schedule of findings and questioned costs. Capital for Change, Inc. and Affiliated Organizations' response was not subjected to the auditing procedures applied in the audit of the consolidated financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

CohnReznick LLP

Hartford, Connecticut
June 29, 2020

Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by the Uniform Guidance

To the Board of Directors
Capital for Change, Inc.

Report on Compliance for Each Major Federal Program

We have audited Capital for Change, Inc. and Affiliated Organizations' compliance with the types of compliance requirements described in the *OMB Compliance Supplement* that could have a direct and material effect on each of Capital for Change, Inc. and Affiliated Organizations' major federal programs for the year ended March 31, 2020. Capital for Change, Inc. and Affiliated Organizations' major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

*Management's Responsibility*

Management is responsible for compliance with federal statutes, regulations, and the terms and conditions of its federal awards applicable to its federal programs.

*Auditor's Responsibility*

Our responsibility is to express an opinion on compliance for each of Capital for Change, Inc. and Affiliated Organizations' major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* ("Uniform Guidance"). Those standards and the Uniform Guidance require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Capital for Change, Inc. and Affiliated Organizations' compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of Capital for Change, Inc. and Affiliated Organizations' compliance.

*Opinion on Each Major Federal Program*

In our opinion, Capital for Change, Inc. and Affiliated Organizations complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended March 31, 2020.

*Other Matters*

The results of our auditing procedures disclosed an instance of noncompliance which is required to be reported in accordance with the Uniform Guidance and which is described in the accompanying schedule of findings and questioned costs as Finding 2020-001. Our opinion on each major federal program is not modified with respect to these matters.

Capital for Change, Inc. and Affiliated Organizations' response to the noncompliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Capital for Change, Inc. and Affiliated Organizations' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

Report on Internal Control over Compliance

Management of Capital for Change, Inc. and Affiliated Organizations is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered Capital for Change, Inc. and Affiliated Organizations' internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with the Uniform Guidance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Capital for Change, Inc. and Affiliated Organizations' internal control over compliance.

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

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that have not been identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, we did identify a certain deficiency in internal control over compliance, as described in the accompanying schedule of findings and questioned costs as Finding 2020-001, that we consider to be a significant deficiency.

Capital for Change, Inc. and Affiliated Organizations' response to the internal control over compliance findings identified in our audit is described in the accompanying schedule of findings and questioned costs. Capital for Change, Inc. and Affiliated Organizations' response was not subjected to the auditing procedures applied in the audit of compliance and, accordingly, we express no opinion on the response.

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

CohnReznick LLP

Hartford, Connecticut
June 29, 2020

**Capital for Change, Inc. and Affiliated Organizations**

**Schedule of Findings and Questioned Costs**
**Year Ended March 31, 2020**

*I. Summary of Auditor's Results:*

Financial Statements

| | |
|---|---|
| Type of auditor's report issued: | Unmodified opinion |
| Internal control over financial reporting: | |
| • Material weakness(es) identified? | ____yes __X__no |
| • Significant deficiency(ies) identified? | __X__yes ____none reported |
| Noncompliance material to financial statements noted? | ____yes __X__no |

Federal Awards

| | |
|---|---|
| Internal control over major programs: | |
| • Material weakness(es) identified? | ____yes __X__no |
| • Significant deficiency(ies) identified? | __X__yes ____none reported |
| Type of auditor's report issued on compliance for major programs: | Unmodified opinion |
| Any audit findings disclosed that are required to be reported in accordance with 2 CFR Section 200.516(a)? | __X__yes __no |

Identification of major program:

| CFDA Number | Name of Federal Program |
|---|---|
| 14.XXX | Title II Nonsupervised Mortgages |
| 11.307 | Economic Adjustment Assistance - EDA RLF Grant |

Dollar threshold used to distinguish between type A and type B programs: $750,000

Auditee qualified as low-risk auditee? ____yes __X__no

*II. Findings - Financial Statement Audit:*

Finding No. 2020-001

**Statement of Condition**
C4C did not properly report delinquent loans on a monthly basis.

**Criteria**
Lenders must report a delinquent loan when one full installment is due and unpaid as of the last day of the month and continue reporting the loan's status until there is a resolution to the delinquency. The delinquencies are required to be reported to HUD via the FHA Connection, the reported delinquencies are then processed in HUD's Single Family Default Monitoring System (SFDMS/F42).

**Questioned Costs**
None

**Effect**
The Organization was not in compliance with the delinquency reporting requirements during the year.

**Context**
During the year ended March 31, 2020 the Organization staff preparing the report was not properly registered in the system and as a result, the data was not validated and transmitted. The internal controls over the reporting process were not adequate to identify this error in the normal course of business. The error was detected when management attempted to retrieve a delinquency history from the system and discovered the data was not saved. The financial impact is not material to the financial statements as a whole.

**Cause**
The internal controls over the reporting process were not adequate to identify this error in the normal course of business. The error was detected when management attempted to retrieve a delinquency history from the system and discovered the data was not saved. After reviewing the process in place, management identified the registration issue for the new staff and corrected the processing error but also instituted an added review procedure to confirm monthly validation by a senior staff.

**Recommendation**
No additional recommendation at this time as management has added a review procedure that would detect a reporting error in a timely manner.

**Finding Resolution Status:** Resolved

**Views of Responsible Officials and Planned Corrective Actions**
Management identified the registration issue for the new staff and corrected the processing error but also instituted an added review procedure to confirm monthly validation by a senior staff. The report was properly filed in June 2020 for May 2020 delinquencies.

*III. Findings and Questioned Costs - Major Federal Award Programs Audit:*

Department of Housing and Urban Development

Finding No. 2020-001; Title II Nonsupervised Mortgages, CFDA 14.XXX

**Statement of Condition**
C4C did not properly report delinquent loans on a monthly basis.

**Criteria**
Lenders must report a delinquent loan when one full installment is due and unpaid as of the last day of the month and continue reporting the loan's status until there is a resolution to the delinquency. The delinquencies are required to be reported to HUD via the FHA Connection, the reported delinquencies are then processed in HUD's Single Family Default Monitoring System (SFDMS/F42).

**Questioned Costs**
None

**Effect**
The Organization was not in compliance with the delinquency reporting requirements during the year.

**Context**
During the year ended March 31, 2020 the Organization staff preparing the report was not properly registered in the system and as a result, the data was not validated and transmitted. The internal controls over the reporting process were not adequate to identify this error in the normal course of business. The error was detected when management attempted to retrieve a delinquency history from the system and discovered the data was not saved. The financial impact is not material to the financial statements as a whole.

**Cause**
The internal controls over the reporting process were not adequate to identify this error in the normal course of business. The error was detected when management attempted to retrieve a delinquency history from the system and discovered the data was not saved. After reviewing the process in place, management identified the registration issue for the new staff and corrected the processing error but also instituted an added review procedure to confirm monthly validation by a senior staff.

**Recommendation**
No additional recommendation at this time as management has added a review procedure that would detect a reporting error in a timely manner.

**Finding Resolution Status:** Resolved

**Views of Responsible Officials and Planned Corrective Actions**
Management identified the registration issue for the new staff and corrected the processing error but also instituted an added review procedure to confirm monthly validation by a senior staff. The report was properly filed in June 2020 for May 2020 delinquencies.

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