

**HABITAT FOR HUMANITY OF EASTERN  
CONNECTICUT, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2024**

**HABITAT FOR HUMANITY OF EASTERN  
CONNECTICUT, INC.**

**FINANCIAL REPORT**

**JUNE 30, 2024**

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## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors  
Habitat for Humanity of Eastern  
Connecticut, Inc.  
New London, Connecticut

### **Opinion**

We have audited the accompanying financial statements of Habitat for Humanity of Eastern Connecticut, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2024, and the related statements of activities and changes in net assets, functional expenses and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Eastern Connecticut, Inc. as of June 30, 2024, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### **Basis for Opinion**

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Eastern Connecticut, Inc. and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### **Responsibilities of Management for the Financial Statements**

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Eastern Connecticut, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

### **Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an

auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 Habitat for Humanity of Eastern Connecticut, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Eastern Connecticut, Inc.'s ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control related matters that we identified during the audit.

### **Report on Summarized Comparative Information**

We have previously audited Habitat for Humanity of Eastern Connecticut, Inc.'s 2023 financial statements, and we expressed an unmodified opinion on those audited financial statements in our report dated May 21, 2024. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2023, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Carter, Hayes + Associates, P.C.*

Hamden, Connecticut  
July 14, 2025

**HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.**

**STATEMENT OF FINANCIAL POSITION**

**JUNE 30, 2024**

**(With Comparative Totals for Year ended June 30, 2023)**

**ASSETS**

|  | <u>2024</u>         | <u>2023</u>         |
|--|---------------------|---------------------|
| <b>ASSETS</b>  |                     |                     |
| Cash and cash equivalents  | \$ 907,908          | \$ 626,398          |
| Grants and other receivables   | 151,164             | 44,126              |
| Non-interest bearing mortgage loans, net of<br>unamortized discounts of \$2,594,874 in 2024<br>and \$2,349,061 in 2023 | 2,623,918           | 2,547,853           |
| Construction in progress   | 645,372             | 950,416             |
| Property held for sale   | 39,521              | -                   |
| Property held for development  | 1,068,220           | 872,968             |
| Prepaid expenses and deposits  | 43,816              | 47,575              |
| Property and equipment, net  | 371,063             | 373,852             |
| Operating right of use asset   | <u>274,387</u>      | <u>126,095</u>      |
|  | <u>\$ 6,125,369</u> | <u>\$ 5,589,283</u> |

**LIABILITIES AND NET ASSETS**

|                             | <u>2024</u>         | <u>2023</u>         |
|-----------------------------|---------------------|---------------------|
| <b>LIABILITIES</b>          |                     |                     |
| Accounts payable            | \$ 33,555           | \$ 18,728           |
| Accrued expenses            | 50,937              | 50,517              |
| Line of credit              | -                   | 25,966              |
| Mortgages and notes payable | 767,925             | 843,950             |
| Operating lease liability   | 274,387             | 126,095             |
| Escrows held                | <u>3,824</u>        | <u>3,584</u>        |
|                             | <u>1,130,628</u>    | <u>1,068,840</u>    |
| <br><b>NET ASSETS</b>       |                     |                     |
| Without donor restrictions  | 4,866,241           | 4,473,443           |
| With donor restrictions     | <u>128,500</u>      | <u>47,000</u>       |
|                             | <u>4,994,741</u>    | <u>4,520,443</u>    |
|                             | <u>\$ 6,125,369</u> | <u>\$ 5,589,283</u> |

*See Notes to Financial Statements.*

**HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.**  
**STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS**  
**YEAR ENDED JUNE 30, 2024**

**(With Comparative Totals for Year ended June 30, 2023)**

|                                       | <b>Without Donor<br/>Restrictions</b> | <b>With Donor<br/>Restrictions</b> | <b>Totals</b>       |                     |
|---------------------------------------|---------------------------------------|------------------------------------|---------------------|---------------------|
|                                       |                                       |                                    | <b>2024</b>         | <b>2023</b>         |
| <b>SUPPORT AND REVENUES</b>           |                                       |                                    |                     |                     |
| Contributions and grants              | \$1,102,722                           | \$ 131,000                         | \$ 1,233,722        | \$ 442,012          |
| In-kind donations                     | 229,806                               | -                                  | 229,806             | 132,787             |
| Transfers to homeowners               | 838,000                               | -                                  | 838,000             | 757,000             |
| Restore income                        | 882,856                               | -                                  | 882,856             | 809,466             |
| Mortgage loan discount amortization   | 163,085                               | -                                  | 163,085             | 98,204              |
| Interest and dividend income          | 18,232                                | -                                  | 18,232              | 709                 |
| Gain (loss) on sale of assets         | 1,171                                 | -                                  | 1,171               | 100,601             |
| Miscellaneous                         | 46,591                                | -                                  | 46,591              | 4,356               |
| Net assets released from restrictions | 49,500                                | (49,500)                           | -                   | -                   |
|                                       | <u>3,331,963</u>                      | <u>81,500</u>                      | <u>3,413,463</u>    | <u>2,345,135</u>    |
| <b>EXPENSES</b>                       |                                       |                                    |                     |                     |
| Program                               |                                       |                                    |                     |                     |
| Housing program                       | 1,900,684                             | -                                  | 1,900,684           | 1,636,747           |
| Restore                               | 620,297                               | -                                  | 620,297             | 598,224             |
| Supporting services                   |                                       |                                    |                     |                     |
| General and administrative            | 264,950                               | -                                  | 264,950             | 238,527             |
| Fundraising                           | 153,234                               | -                                  | 153,234             | 119,034             |
|                                       | <u>2,939,165</u>                      | <u>-</u>                           | <u>2,939,165</u>    | <u>2,592,532</u>    |
| <b>CHANGES IN NET ASSETS</b>          | 392,798                               | 81,500                             | 474,298             | (247,397)           |
| <b>NET ASSETS, beginning of year</b>  | <u>4,473,443</u>                      | <u>47,000</u>                      | <u>4,520,443</u>    | <u>4,767,840</u>    |
| <b>NET ASSETS, end of year</b>        | <u>\$ 4,866,241</u>                   | <u>\$ 128,500</u>                  | <u>\$ 4,994,741</u> | <u>\$ 4,520,443</u> |

*See Notes to Financial Statements.*

**HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.**

**STATEMENT OF FUNCTIONAL EXPENSES**

**YEAR ENDED JUNE 30, 2024**

**(With Comparative Totals for Year ended June 30, 2023)**

|   | Program Services    |                  |                    | Supportive Services           |                  |                  | Total expenses     |                    |
|---|---------------------|------------------|--------------------|-------------------------------|------------------|------------------|--------------------|--------------------|
|   | Housing<br>Program  | Restore          | Total              | General and<br>Administrative | Fundraising      | Total            | 2024               | 2023               |
| Personnel Expenses:   |                     |                  |                    |                               |                  |                  |                    |                    |
| Salaries  | \$ 323,450          | \$212,207        | \$ 535,657         | \$ 151,076                    | \$103,280        | \$254,356        | \$ 790,013         | \$ 687,174         |
| Payroll taxes and benefits                                      | <u>56,594</u>       | <u>30,779</u>    | <u>87,373</u>      | <u>27,925</u>                 | <u>18,714</u>    | <u>46,639</u>    | <u>134,012</u>     | <u>113,610</u>     |
| Total salaries and related benefits                             | 380,044             | 242,986          | 623,030            | 179,001                       | 121,994          | 300,995          | 924,025            | 800,784            |
| Cost of homes transferred                                       | 817,357             | -                | 817,357            | -                             | -                | -                | 817,357            | 773,463            |
| Mortgage discounts  | 408,899             | -                | 408,899            | -                             | -                | -                | 408,899            | 315,698            |
| Occupancy costs   | 20,134              | 208,782          | 228,916            | 17,645                        | 5,808            | 23,453           | 252,369            | 246,050            |
| Construction/program expenses                                   | 17,555              | 93,981           | 111,536            | -                             | -                | -                | 111,536            | 110,613            |
| Office expenses   | 30,094              | 1,732            | 31,826             | 24,141                        | 6,075            | 30,216           | 62,042             | 62,675             |
| Insurance   | 77,544              | 25,958           | 103,502            | 595                           | 595              | 1,190            | 104,692            | 60,633             |
| Fees and permits  | 7,687               | 21,950           | 29,637             | 4,720                         | 2,979            | 7,699            | 37,336             | 34,082             |
| Depreciation  | 17,037              | 18,218           | 35,255             | 3,726                         | 2,329            | 6,055            | 41,310             | 43,861             |
| Interest expense  | 23,769              | -                | 23,769             | 19                            | -                | 19               | 23,788             | 25,971             |
| Advertising and printing  | 3,326               | 1,065            | 4,391              | 3,048                         | 2,339            | 5,387            | 9,778              | 22,984             |
| Miscellaneous   | 6,629               | 1,140            | 7,769              | 3,237                         | 9,345            | 12,582           | 20,351             | 21,705             |
| Professional fees   | -                   | -                | -                  | 23,798                        | -                | 23,798           | 23,798             | 21,426             |
| Travel and meetings   | 15,312              | 1,881            | 17,193             | 4,119                         | 1,207            | 5,326            | 22,519             | 16,520             |
| Tithe and fees to Habitat International                         | 27,991              | -                | 27,991             | -                             | -                | -                | 27,991             | 27,102             |
| Telephone   | 3,776               | 2,604            | 6,380              | 901                           | 563              | 1,464            | 7,844              | 8,965              |
| Impairment losses on construction<br>in progress and land costs | <u>43,530</u>       | <u>-</u>         | <u>43,530</u>      | <u>-</u>                      | <u>-</u>         | <u>-</u>         | <u>43,530</u>      | <u>-</u>           |
|   | <u>\$ 1,900,684</u> | <u>\$620,297</u> | <u>\$2,520,981</u> | <u>\$ 264,950</u>             | <u>\$153,234</u> | <u>\$418,184</u> | <u>\$2,939,165</u> | <u>\$2,592,532</u> |

*See Notes to Financial Statements.*

**HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.**

**STATEMENT OF CASH FLOWS**

**YEAR ENDED JUNE 30, 2024**

**(With Comparative Totals for Year ended June 30, 2023)**

|  | <b>2024</b>              | <b>2023</b>              |
|--|--------------------------|--------------------------|
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>  |                          |                          |
| Increase (decrease) in net assets  | \$ 474,298               | \$ (247,397)             |
| Adjustments to reconcile increase (decrease) in net assets to net cash provided by (used in) operating activities: |                          |                          |
| Depreciation   | 41,310                   | 43,861                   |
| Gain on sale of assets   | (1,171)                  | (100,601)                |
| Mortgages transferred to homeowners subject to non-interest bearing advances                                       | (263,101)                | (249,302)                |
| Mortgage loan discount amortization  | (163,085)                | (98,204)                 |
| Discount on properties held for sale and construction in progress  | 43,530                   | -                        |
| (Increase) decrease in:  |                          |                          |
| Contributions and other receivables  | (107,038)                | 3,179                    |
| Construction in progress   | 222,844                  | (127,569)                |
| Property held for sale and development   | (236,303)                | (9,039)                  |
| Prepaid expenses and other current assets  | 3,759                    | 26,565                   |
| Increase (decrease) in:  |                          |                          |
| Accounts payable and accrued expenses  | 15,247                   | (38,370)                 |
| Escrows held   | <u>240</u>               | <u>750</u>               |
| <i>Net cash provided by (used in) operating activities</i>   | <u>30,530</u>            | <u>(796,127)</u>         |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>  |                          |                          |
| Purchase of property and equipment   | -                        | (7,000)                  |
| Proceeds from sale of properties and equipment   | 2,850                    | 354,000                  |
| Collection of mortgages receivable   | <u>350,121</u>           | <u>243,585</u>           |
| <i>Net cash provided by investing activities</i>   | <u>352,971</u>           | <u>590,585</u>           |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>  |                          |                          |
| Principal repayments on long term debt   | (76,025)                 | (60,795)                 |
| Repayments of line of credit   | <u>(25,966)</u>          | <u>(17,000)</u>          |
| <i>Net cash used in financing activities</i>   | <u>(101,991)</u>         | <u>(77,795)</u>          |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>  | 281,510                  | (283,337)                |
| <b>CASH AND CASH EQUIVALENTS, beginning</b>  | <u>626,398</u>           | <u>909,735</u>           |
| <b>CASH AND CASH EQUIVALENTS, ending</b>   | <u><u>\$ 907,908</u></u> | <u><u>\$ 626,398</u></u> |

*See Notes to Financial Statements.*

**HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.**

**STATEMENT OF CASH FLOWS, Continued**

**YEAR ENDED JUNE 30, 2024**

**(With Comparative Totals for Year ended June 30, 2023)**

|   | <u>2024</u>       | <u>2023</u>       |
|---|-------------------|-------------------|
| <b>SUPPLEMENTAL DISCLOSURES OF CASH<br/>FLOW INFORMATION:</b>             |                   |                   |
| Operating activities reflect cash paid during the period for:             |                   |                   |
| Interest  | <u>\$ 23,788</u>  | <u>\$ 25,971</u>  |
| Recording of right-of-use assets and lease liabilities                    | <u>\$ 227,637</u> | <u>\$ 221,660</u> |
| <b>SUPPLEMENTAL DISCLOSURE OF NONCASH<br/>INVESTING ACTIVITY:</b>         |                   |                   |
| Issuance of non-interest bearing mortgage loans                           | \$ 672,000        | \$ 565,000        |
| Discounts on non-interest bearing mortgage loans                          | <u>(408,899)</u>  | <u>(315,698)</u>  |
| Transfers to homeowners subject to non-interest<br>bearing mortgage loans | <u>\$ 263,101</u> | <u>\$ 249,302</u> |

*See Notes to Financial Statements.*

**HABITAT FOR HUMANITY OF EASTERN  
CONNECTICUT, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**JUNE 30, 2024**

**(With Selective Comparative Information for the Year ended June 30, 2023)**

**1. Nature of Organization and Significant Accounting Policies**

**Nature of Organization**

Habitat for Humanity of Eastern Connecticut, Inc. (“HFHECT”) is a tax-exempt, not-for-profit organization, non-stock corporation organized under Connecticut law. Habitat is an independent affiliate of Habitat for Humanity International, Inc. (“HFHI”), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although HFHI assists with informational and fiscal resources, HFHECT is primarily responsible for its own operations.

HFHECT in the spirit of sharing, builds and renovates decent and affordable homes using volunteer labor for very low-income individuals in New London and Eastern Windham Counties. Purchasers, who have been approved and selected by HFHECT based on income and need for affordable housing, volunteer their labor in partnership with HFHECT and other volunteers from the community to build their homes. The homes are then sold to the individuals at below cost and financed at no interest mortgages through HFHECT or other lenders. These mortgages are usually long term, ranging from twenty to forty years, and contain provisions to limit the homeowners from profiting on the resale of their homes. HFHECT’s program is funded through contributions, grants, and in-kind donations, from individuals, foundations, corporations, public agencies, and religious organizations.

**Basis of Accounting**

The financial statements of HFHECT have been prepared on the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when incurred.

**Net Assets**

HFHECT reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions. Net assets, revenues, gains, and losses are classified based on the existence or absence of donor or grantor-imposed restrictions. Accordingly, net assets and changes therein are classified and reported as follows:

**Net Assets Without Donor Restrictions**

Net assets available for use in general operations and are not subject to donor-imposed restrictions.

**Net Assets With Donor Restrictions**

Net assets subject to stipulations imposed by donors. Some donor restrictions are temporary in nature, such as those that will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the fund be maintained in perpetuity. Donor-imposed restrictions are released when a restriction expires, that is, when the stipulated time

**HABITAT FOR HUMANITY OF EASTERN  
CONNECTICUT, INC.**

**NOTES TO FINANCIAL STATEMENTS, Continued**

has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

**Recognition of Support and Revenue**

**Grants**

In accordance with ASU 2018-08, grants from government agencies are accounted for as conditional contributions. Conditional contributions are recorded when the condition has been satisfied. Grant funds received prior to satisfaction of the condition are reported as deferred revenue. Conditions satisfied in advance of grant funds being received are reported as a receivable.

**Contributions**

Contributions are defined as voluntary, non-reciprocal transfers. Contributions are recognized as support when received or pledged, if applicable. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the reporting period in which the contribution is recognized. All other donor restricted contributions are reported as an increase in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the Statement of Activities as net assets released from restrictions.

**Exchange Transactions**

Program revenues are recognized when control of the promised goods or services are transferred to the Organization's customers, in an amount that reflects the consideration the Organization expects to be entitled to for those goods or services. To do this, the Organization performs the following five steps as outlined in ASC 606: (i) identify the contract(s) with a customer, (ii) identify the performance obligations in the contract, (iii) determine the transaction price, (iv) allocate the transaction price to the performance obligations in the contract and (v) recognize revenue when (or as) the Organization satisfies a performance obligation.

**Revenue Types**

**Transfers to Homeowners**

Homes are sold to buyers that meet HFHECT's qualification guidelines. The Organization recognizes the revenue from the sale of homes at the date of closing for the house as this is the point in time the Organization has determined that their performance obligation is satisfied.

**ReStore Income**

HFHECT sells donated goods through its two ReStore locations in Plainfield and Waterford, Connecticut. ReStore sales are recognized as revenue at the time of the sale as this is the point in time the Organization has determined that their performance obligation is satisfied. Historically, sales returns have not been significant.

**HABITAT FOR HUMANITY OF EASTERN  
CONNECTICUT, INC.**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**Cash and Cash Equivalents**

The Organization considers short-term, highly liquid investments with maturities of three months or less from the date of original acquisition to be cash equivalents.

**Contributions and Other Receivables**

Grants and other receivables consist primarily of amounts due from the mortgage servicers for mortgage payments received in June 2024 but not transferred to the Organization until July 2024. The Organization has determined that all amounts are collectible, and accordingly no allowance for credit losses has been recorded.

**Property and Equipment**

Donated assets are stated at fair market value as determined by management at the date contributed. Property purchased is recorded at cost. Property and equipment purchased or donated in excess of \$2,500 are capitalized.

Depreciation is provided utilizing the straight-line method over the estimated useful lives of the property as follows:

|                                   |               |
|-----------------------------------|---------------|
| Building and improvements         | 7 to 40 years |
| Furniture, equipment and vehicles | 5 to 7 years  |

Maintenance and repair costs are charged to operations as incurred; major renewals and betterments are capitalized. The costs relating to assets sold or retired are removed from the account balance at the time of the disposition and the related gains and losses are included in the change in net assets.

**Property Held for Sale**

Property held for sale consists of lots that were previously donated to HFHECT and the Organization has determined that building on the sites would not be cost effective. Land held for sale is valued at the lower of carrying cost or anticipated sales price, with an impairment loss recorded for the difference. Impairment losses of \$1,530 and \$0, respectively, were recognized on property held for sale at June 30, 2024 and 2023.

**Property Held for Development**

Property held for development consists of land, buildings and improvements to be utilized as homes for future HFHECT homeowners. Costs incurred to improve land are capitalized when incurred. The total allocated cost of each lot is charged to construction in progress upon commencement of construction activities. HFHECT reviews property held for development for impairment during each reporting period on a property-by-property basis. Accounting principles generally accepted in the United States of America require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair market value. There were no impairment losses recorded related to Property Held for Development for the years ended June 30, 2024 and 2023.

**HABITAT FOR HUMANITY OF EASTERN  
CONNECTICUT, INC.**

**NOTES TO FINANCIAL STATEMENTS, Continued**

**Adoption of New Accounting Pronouncement**

On July 1, 2023, the Organization adopted ASU 2016-13 *Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*. The new standard replaced the incurred loss methodology with the expected credit loss (“CECL”) methodology. In the past, losses were recorded when it became *probable* that all contractual amounts would not be collected, based on information known at the balance sheet date. Under the new standard, the probable threshold need not be met and, if historical experience and future expectations suggest mortgages will not be collected, an allowance for credit losses is recorded. The adoption of this new standard had no material effect on HFHECT’s financial statements and primarily resulted in new and enhanced disclosures only.

**Leases**

Effective July 1, 2022, the Organization’s leases are recorded as lease right-of-use (ROU) assets and corresponding liabilities on the balance sheet, measured at the net present value of future lease payments. ROU assets represent the Organization’s right to use an underlying asset for the lease term, while lease liabilities represent HFHECT’s obligation to make lease payments arising from the lease. At inception, leases are classified as either operating or finance. Lease expense for operating lease payments is recognized on a straight-line basis over the non-cancelable lease term. Lease terms may include options to extend or terminate the lease when it is reasonably certain that HFHECT will exercise that option.

The Organization discounts cash flows based on the rate implicit in the lease, however, when the rate is not determinable, rather than use the Organization’s incremental borrowing rate, the Organization has elected to use a risk-free discount rate determined using a period comparable with that of the lease term for computing the present value of lease liabilities.

The Organization does not apply the recognition requirements to any lease with an original term of 12 months or less, for which the Organization is not likely to exercise a renewal option or purchase the asset at the end of the lease term; rather short-term leases are recorded on a straight-line basis over the lease term.

**Donated Services, Properties and Materials**

Donated materials, which are contributed by outside parties, are recorded as support and Construction in Progress, when measurable, in the period in which the materials are donated. Donated properties are recorded as support and Property Held for Development, based on assessments and/or appraisals, in the period in which the properties are donated.

HFHECT recognizes donated services if they create or enhance nonfinancial assets or requires specialized skills and would typically be purchased if not provided by donation. A substantial number of volunteers have made significant contributions of their time to Habitat’s homebuilding program which do not meet this criterion for recognition in the financial statements.

**Donated Goods**

ReStore inventory consists of donated home furnishings, building supplies, paint and paint supplies, flooring and other home improvement items. No amounts have been

**HABITAT FOR HUMANITY OF EASTERN  
CONNECTICUT, INC.**

**NOTES TO FINANCIAL STATEMENTS, Continued**

recognized in the accompanying statement of activities for these goods because the criteria for recognition have not been satisfied.

**Income Taxes**

HFHECT, a not-for-profit organization operating under section 501(c) (3) of the Internal Revenue Code, is exempt from federal and state taxes under the group exemption held by HFHI and, accordingly, no provision for income taxes is recorded in the financial statements.

The Organization files tax returns in the United States. HFHECT has not taken any tax positions that management believes would result in additional tax liabilities upon examination of the tax returns by a tax jurisdiction. The Organization has no open tax years prior to June 30, 2021. HFHECT's tax returns are subject to examination, generally for three years after they were filed.

**Below Market Loans**

HFHECT was formed in order to build affordable housing for low-income families. Other nonprofit and governmental entities having a similar agenda to foster the construction of low-income housing have lent money to the Organization at advantageous terms. HFHECT has not discounted these below market loans since they were made at arm's length.

**Presentation of Sales Taxes**

The State of Connecticut imposes a sales tax of 6.35% on certain types of the Organization's sales. HFHECT collects that sales tax from customers and remits the entire amount to the State. HFHECT's accounting policy is to exclude the tax collected and remitted to the State from revenues and expenses.

**Advertising**

Advertising costs are expensed as incurred and totaled \$6,322 and \$12,746 for the years ended June 30, 2024 and 2023, respectively. Advertising costs consist primarily of print media.

**Use of Estimates**

Management uses estimates and assumptions in preparing financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and the reported revenues and expenses. Actual results could vary from the estimates that were used. The discounts applied to mortgage receivables is a significant estimate included in these financial statements.

**Functional Allocation of Expenses**

The costs of program and supporting services activities have been summarized on a functional basis in the Statement of Activities and Changes in Net Assets. The Statement of Functional Expenses presents the natural classification detail of expenses by function. Direct costs that can be specifically identified with a program or activity are charged to the respective program or activity. Certain costs have been allocated among the program and supporting services benefited. Such allocations are determined by management using a reasonable basis that is consistently applied. The expenses that

**HABITAT FOR HUMANITY OF EASTERN  
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**NOTES TO FINANCIAL STATEMENTS, Continued**

are allocated include occupancy, repairs and maintenance and depreciation, which are allocated on a square footage basis, as well as salaries and wages, payroll taxes and benefits, office expenses, insurance and telephone, which are allocated on the basis of estimates of time and effort.

**Comparative Financial Information**

The accompanying financial statements include certain prior year summarized comparative information in total but not by net asset classification or functional expense. Such information does not include sufficient detail to constitute a presentation in conformity with accounting principles generally accepted in the United States of America (GAAP). Accordingly, such information should be read in conjunction with HFHECT's audited financial statements for the year ended June 30, 2023, from which the summarized information was derived.

**Disclosure of Subsequent Events**

Management has monitored and evaluated any subsequent events through July 14, 2025, the date the financial statements were available to be issued. Management is not aware of any events subsequent to the Statement of Financial Position date which require additional adjustment to, or disclosure in, the accompanying financial statements.

**Reclassifications**

Certain reclassifications were made to the prior year summarized comparative information to conform with the current year presentation. The reclassifications had no impact on previously reported net assets.

**2. Concentrations**

**Cash Investments**

The Organization places its cash deposits with high credit quality financial institutions and such deposits may exceed federal depository insurance limits of \$250,000 per financial institution for short periods of time. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash. At June 30, 2024 the uninsured cash balance amounted to approximately \$240,000.

**Mortgages Receivable**

The Organization regularly reviews its mortgages receivable and monitors the accounts for delinquencies and will work with the homeowners to cure any delinquent payments. If the homeowner does not cure the default, foreclosure proceedings are initiated.

**Support and Revenue**

Grants and contracts with various public agencies require the fulfillment of certain conditions as set forth in the grant instrument. Failure to fulfill such conditions, which include expending funds in accordance with the approved budget, could result in the return of funds to the grantor. No return of funds by the Organization have been required to date.

**HABITAT FOR HUMANITY OF EASTERN  
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**NOTES TO FINANCIAL STATEMENTS, Continued**

**3. Liquidity and Availability**

Financial assets available for general expenditures, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, comprise the following:

|                                     |                    |
|-------------------------------------|--------------------|
| Cash                                | \$ 907,908         |
| Contributions and other receivables | 151,164            |
| Current mortgage loans receivable   | <u>229,524</u>     |
|                                     | <u>\$1,288,596</u> |

The Organization plans to have sufficient financial assets to meet obligations as they come due. All the donor restricted net assets at June 30, 2024 are expected to be spent by June 30, 2025. In addition to the financial assets available above, the Organization has access to a line of credit in the amount of \$250,000 which was fully available at June 30, 2024. The Organization also has a grant from the City of Norwich with a remaining balance of \$309,846 to be utilized to fund construction costs through December 31, 2024.

**4. Mortgages Receivable**

Mortgages receivable consist of sixty three (63) non-interest bearing loans at June 30, 2024 which are secured by real estate and payable in monthly installments over the life of the mortgage. The mortgage loans have original maturities ranging from 20 to 40 years and arose in conjunction with HFHECT's homebuilding initiatives in Eastern Connecticut.

Mortgage servicing is performed by third party servicers (Liberty Bank and Capital for Change).

The non-interest-bearing mortgages have been discounted at various rates ranging from 3.24% to 7.94% based on the Freddie Mac rate plus .5% at the inception of the mortgages. These original discounted amounts are reflected in the financial statements as *Mortgage discounts* on the Statement of Functional Expenses. The discounts are amortized using the straight-line method over the lives of the mortgages and the income is reflected in Statement of Activities and Changes in Net Assets. The net mortgage receivable balances are generally less than 50% of the home's fair market value. Therefore, HFHECT believes that losses resulting from nonpayment of mortgage notes receivable, given the collateral value, are not likely. Accordingly, management has not established an allowance for credit losses.

In addition to the non-interest-bearing mortgage received from the sale of each home, HFHECT issues a contingent second mortgage. The second mortgages represent the excess of the lesser of the appraised value of the home and the total development cost of the home over the original loan at the date the second mortgage is executed. Should the following triggering events occur prior to the maturity date of the first mortgage the second mortgage would become due: refinance the first mortgage, sell or transfer ownership, or default on the mortgage. Based on the Organization's past loan history, the second mortgage payoff is considered infrequent and remote by HFHECT, and therefore no receivable has been recorded in the financial statements.

During the year ended June 30, 2023, two homeowners sold their homes and HFHECT received \$42,675 under the second mortgages, which is included in Miscellaneous income in the Statement of Activities and Changes in Net Assets.

**HABITAT FOR HUMANITY OF EASTERN  
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**NOTES TO FINANCIAL STATEMENTS, Continued**

Mortgages receivable at June 30, 2024 consisted of the following:

|                           |                    |
|---------------------------|--------------------|
| Due in less than one year | \$ 229,524         |
| Due in one to five years  | 892,626            |
| Thereafter                | <u>4,096,642</u>   |
|                           | 5,218,792          |
| Less unamortized discount | <u>2,594,874</u>   |
|                           | <u>\$2,623,918</u> |

**5. Construction in Progress**

Construction in progress represents the cumulative amounts expended to date on land, building and renovation costs and a representative amount for donated materials and land. Projects currently in progress at June 30, 2024 consisted of the following:

|                                  |                  |
|----------------------------------|------------------|
| 42 Laurel Leaf, Gales Ferry      | \$249,973        |
| 127 Serwan Avenue, Willimantic   | 175,520          |
| 702 New London Turnpike, Norwich | <u>219,879</u>   |
|                                  | <u>\$645,372</u> |

Construction in progress is valued at the lower of carrying cost or anticipated sales price, with an impairment loss recorded for the difference. Impairment losses of \$42,000 and \$0 were recognized on construction in progress at June 30, 2024 and 2023, respectively.

**6. Property and Equipment**

Property and equipment consisted of the following at June 30, 2024:

|                                |                  |
|--------------------------------|------------------|
| Land and buildings, operations | \$297,355        |
| Land held for lease            | 126,500          |
| Equipment and vehicles         | 163,511          |
| ReStore leasehold improvements | 185,688          |
| Furniture and fixtures         | <u>20,517</u>    |
|                                | 793,571          |
| Less accumulated depreciation  | <u>422,508</u>   |
|                                | <u>\$371,063</u> |

HFHECT reviews its investment in real estate for impairment whenever events or changes in circumstances indicate that the carrying value of such property may not be recoverable. Recoverability is measured by a comparison of the carrying amount of the real estate to the future net undiscounted cash flow expected to be generated by property and any estimated proceeds from the eventual disposition of the real estate. If the real estate is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the real estate exceeds the fair value of such property. There was no impairment loss recognized during the years ended June 30, 2024 and 2023.

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**NOTES TO FINANCIAL STATEMENTS, Continued**

**7. Mortgages and Notes Payable**

Long-term debt at June 30, 2024 consisted of the following:

|   |                  |
|---|------------------|
| Dime Bank, four (4) notes payables due in monthly installments ranging from \$479 to \$725, including interest ranging from 4% to 4.25%, due on various dates through August 2041, secured by mortgage receivables      | \$314,554        |
| Connecticut Housing Finance Authority, ten (10) non-interest bearing notes payable due in monthly installments ranging from \$206 to \$415, due on various dates through February 2042, secured by mortgage receivables | 262,682          |
| Chelsea Bank, two (2) notes payable due in monthly installments of \$490 and \$612, including interest at 4.5%, due on various dates through November 2045, secured by mortgage receivables                             | 155,718          |
| GM Finance, note payable, due in monthly Installments of \$1,361, including interest at 1.9% until June 2026, secured by vehicle  | 32,016           |
| Charter Oak Bank, note payable due in monthly installments of \$422, including interest at 6.25% until January 2025, secured by a vehicle   | <u>2,955</u>     |
|   | <u>\$767,925</u> |

Aggregate maturities required on long-term debt at June 30, 2024 are as follows:

| <u>Year ending<br/>June 30,</u> |                  |
|---------------------------------|------------------|
| 2025                            | \$ 72,387        |
| 2026                            | 72,508           |
| 2027                            | 56,393           |
| 2028                            | 51,705           |
| 2029                            | 48,561           |
| Thereafter                      | <u>466,371</u>   |
|                                 | <u>\$767,925</u> |

**8. Line of Credit**

HFHECT has available a line of credit with Liberty Bank in the amount of \$250,000 which is secured by substantially all the business assets of the Organization. Amounts outstanding under this arrangement bear interest at the Wall Street Journal's prime rate less 1% (7.25% at June 30, 2024). There was no outstanding balance under this line of credit as of June 30, 2024. This agreement remains in effect until Liberty Bank demands payment.

**HABITAT FOR HUMANITY OF EASTERN  
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**NOTES TO FINANCIAL STATEMENTS, Continued**

**9. Net Assets With Donor Restrictions**

Net assets with donor restrictions consist of contributions restricted for future construction costs.

**10. In-Kind Donations**

In-kind donations are summarized as follows for the years ended June 30,

|                                | <u>2024</u>      | <u>2023</u>      |
|--------------------------------|------------------|------------------|
| Donated properties             | \$205,300        | \$105,000        |
| Donated construction materials | 14,295           | 15,737           |
| Donated construction services  | 4,951            | 50               |
| Donated legal services         | 5,260            | 12,000           |
|                                | <u>\$229,806</u> | <u>\$132,787</u> |

Volunteer hours, which have not been valued since they do not meet the criteria for recognition, were approximately as follows for the years ended June 30,

|                               | <u>2024</u>   | <u>2023</u>   |
|-------------------------------|---------------|---------------|
| Construction                  | 6,600         | 8,100         |
| ReStore                       | 7,400         | 6,700         |
| Administrative and committees | 700           | 600           |
|                               | <u>14,700</u> | <u>15,400</u> |

**11. Retirement Plan**

HFHECT has adopted a 401(k) profit sharing plan. Employees must be at least 21 years of age and must be employed by the Organization for at least three months. Employee contributions are 100% matched up to 3% of their annual salary. HFHECT has the option of making an annual discretionary contribution. Matching contributions amounted to \$16,083 and \$11,450 for the years ended June 30, 2024 and 2023, respectively. No discretionary contributions were made for the years ended June 30, 2024 and 2023.

**12. Land Leases**

HFHECT sold both units of housing in a duplex during the year ended June 30, 2021, subject to land leases. The leases have a term of ninety-nine (99) years and the monthly lease payments are \$30. During the years ended June 30, 2024 and 2023, the Organization sold an additional ten (10) homes subject to land leases with ninety-nine (99) year terms and monthly lease payments of \$15. All land leases can be renewed by the homeowner for an additional 99 years. Under the terms of the ground lease agreements, HFHECT retains the right to the land and has the option to purchase any home on the site at the end of the ground lease term or at the time a current owner provides notice to sell at the lesser of the percentage of an appraised value or home purchase formula. For the years ended June 30, 2024 and 2023, \$2,130 and \$1,380, respectively, of lease revenue is included in Miscellaneous income in the accompany Statement of Activities and Changes in Net Assets.

**HABITAT FOR HUMANITY OF EASTERN  
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**NOTES TO FINANCIAL STATEMENTS, Continued**

**13. ReStore Leases**

HFHECT leases two spaces for the operation of its “Restore” program to sell used donated building products in a retail environment.

HFHECT leases 10,000 square feet of space in Waterford, Connecticut. The initial term of the lease was for three years commencing February 1, 2013 and allowed for four options for additional terms of three years each, of which HFHECT has exercised all the options. The current lease term is February 1, 2022 to January 31, 2025 at an annual rent of \$80,400 and the extension for the period February 1, 2025 through January 31, 2028 requires annual rent of \$82,400.

HFHECT leased space for an additional store located in Plainfield, Connecticut for the Eastern Windham County ReStore. The initial term of the lease was for three years commencing October 1, 2013, with a minimum rent plus reimbursement for sewer, water and property taxes. The lease had four options for additional terms of three years each, of which HFHECT exercised the first two, which expired September 30, 2022. Annual minimum rent for the second three-year option was \$57,312. HFHECT did not exercised the next three-year option and leased the facility on a month-to-month basis at \$5,852 per month for the period October 1, 2022 until September 30, 2023 and \$6,086 for per month for the remainder of the year. HFHECT terminated the lease August 31, 2025 and moved the Eastern Windham County ReStore to a new location in Plainfield.

The new Plainfield lease, which commences August 1, 2024 is for 6,000 square feet of space. The initial 5 year lease term requires annual rent of \$48,000 for the first year and increases by 3% per year for the remaining 4 years. The lease has an option for an additional five-year term with the rent to be negotiated at the time the option is exercised.

At June 30, 2024, minimum future payments under lease obligations existing at June 30, 2024, with a term in excess of one year, are as follows:

| <u>Year ending<br/>June 30,</u>                |                  |
|--|------------------|
| 2025   | \$ 81,233        |
| 2026   | 82,400           |
| 2027   | 82,400           |
| 2028   | <u>48,067</u>    |
|  | 294,100          |
| Less imputed interest                          | <u>19,713</u>    |
| Present value of net minimum<br>lease payments | 274,387          |
| Less current portion                           | <u>72,468</u>    |
| Long-term portion                              | <u>\$201,919</u> |

**HABITAT FOR HUMANITY OF EASTERN  
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**NOTES TO FINANCIAL STATEMENTS, Continued**

Total lease expense under the capitalized operating lease arrangements was \$80,400 and \$97,621 for the years ended June 30, 2024 and 2023, respectively. Lease expense for the month to month lease was \$72,331 and \$52,670 for the years ended June 30, 2024 and 2023, respectively.

The weighted average remaining lease term is 3.58 years and the weighted average discount rate is 4%.

**14. Transactions with Habitat for Humanity International**

The Organization annually remits a portion of its unrestricted contributions (excluding in-kind contributions) to HFHI. The remittance is known as Tithing. These funds are used exclusively to construct homes in economically depressed areas around the world. Habitat also contributes an annual U.S. Stewardship and Organizational Sustainability Initiative (SOSI) fee based on its geographic service area population which HFHI uses to offset costs associated with their efforts that benefit all affiliates such as brand protection and promotion, regulatory advocacy and gifts in-kind solicitation. These contributions to HFHI for the years ended June 30, 2024 and 2023 amounted to \$27,991 and \$27,102, respectively.

**15. Contingency**

At times, HFHECT sells mortgages receivable to the Connecticut Housing Finance Authority (CHFA). The agreements underlying the sales of receivables contain provisions that in the event a loan is delinquent by ninety (90) days or more, CHFA can require Habitat to repurchase the delinquent mortgage at 70% of the then outstanding balance. The outstanding balance of mortgages receivable previously sold to CHFA is approximately \$285,000 at June 30, 2024.

In addition, HFHECT guaranteed payment of a loan a homeowner has with a bank. The original amount of the loan was \$50,000 and is secured by the property. The outstanding balance of the loan was approximately \$9,000 at June 30, 2024.

**16. Government Grant**

During the year ended June 30, 2022, the Organization was awarded a \$1,200,000 American Rescue Plan pass through grant from the City of Norwich to construct or renovate homes located in Norwich using the Habitat model. The funds are available through December 31, 2024. Subsequently, the City of Norwich reduced the award to \$900,000, with a minimum of \$360,000 to be used for the completion of homes in the Greenville project and the balance allocated to the rehabilitation of foreclosed homes located within the City of Norwich. During the years ended June 30, 2024 and 2023, \$373,034 and \$217,120, respectively, had been spent and \$309,846 remains to be spent.