

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

FINANCIAL REPORT

JUNE 30, 2020

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

FINANCIAL REPORT

JUNE 30, 2020

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INDEPENDENT AUDITORS' REPORT

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

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, 2020, 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.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat of Humanity of Eastern Connecticut, Inc. as of June 30, 2020, 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.

Carter, Hayes + Associates, P.C.

Hamden, Connecticut
January 15, 2021

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2020

ASSETS

ASSETS

Cash	\$ 1,242,865
Contributions and other receivables	63,274
Non-interest bearing mortgage loans, net of unamortized discounts of \$2,106,451	2,250,751
Property held for development	1,201,998
Construction in progress	984,964
Prepaid expenses and other current assets	101,076
Property and equipment, net	<u>349,011</u>
	<u>\$ 6,193,939</u>

LIABILITIES AND NET ASSETS

LIABILITIES

Accounts payable	\$ 89,868
Accrued expenses	36,253
Lines of credit	139,165
Mortgages and notes payable	940,406
Escrows held	<u>1,809</u>
	<u>1,207,501</u>

NET ASSETS

Without donor restrictions	4,013,091
With donor restrictions	<u>973,347</u>
	<u>4,986,438</u>
	<u>\$ 6,193,939</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, 2020

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
SUPPORT AND REVENUES			
Contributions and grants	\$ 435,210	\$ 564,500	\$ 999,710
In-kind donations	121,323	-	121,323
Transfers to homeowners	65,000	-	65,000
Restore income	624,091	-	624,091
Mortgage loan discount amortization	145,592	-	145,592
Interest income	7,359	-	7,359
Miscellaneous	114	-	114
Net assets released from restrictions	<u>331,153</u>	<u>(331,153)</u>	<u>-</u>
	<u>1,729,842</u>	<u>233,347</u>	<u>1,963,189</u>
EXPENSES			
Program			
Construction and mortgage discounts	592,652	-	592,652
Restore	566,798	-	566,798
Supporting services			
General and administrative	127,119	-	127,119
Fundraising	<u>121,754</u>	<u>-</u>	<u>121,754</u>
	<u>1,408,323</u>	<u>-</u>	<u>1,408,323</u>
CHANGES IN NET ASSETS	321,519	233,347	554,866
NET ASSETS, beginning of year	<u>3,691,572</u>	<u>740,000</u>	<u>4,431,572</u>
NET ASSETS, end of year	<u>\$ 4,013,091</u>	<u>\$ 973,347</u>	<u>\$ 4,986,438</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.
STATEMENT OF FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2020

	<u>Program Services</u>				<u>Supportive Services</u>			<u>2020</u>
	<u>Construction</u>	<u>Mortgage Discounts</u>	<u>Restore</u>	<u>Total</u>	<u>General and Administrative</u>	<u>Fundraising</u>	<u>Total</u>	
Personnel Expenses:								
Salaries	\$ 195,594	\$ -	\$ 186,461	\$ 382,055	\$ 57,849	\$ 78,502	\$136,351	\$ 518,406
Payroll taxes and benefits	<u>35,540</u>	<u>-</u>	<u>44,689</u>	<u>80,229</u>	<u>15,033</u>	<u>16,458</u>	<u>31,491</u>	<u>111,720</u>
Total salaries and related benefits	231,134	-	231,150	462,284	72,882	94,960	167,842	630,126
Occupancy costs	9,604	-	185,781	195,385	3,094	542	3,636	199,021
Cost of homes transferred	125,923	-	-	125,923	-	-	-	125,923
Insurance	53,981	-	30,236	84,217	2,045	2,045	4,090	88,307
Construction/program expenses	23,640	-	54,619	78,259	-	-	-	78,259
Fees and permits	10,032	-	13,853	23,885	19,166	1,332	20,498	44,383
Depreciation	13,344	-	28,877	42,221	1,670	-	1,670	43,891
Office expenses	14,695	-	2,219	16,914	11,208	11,098	22,306	39,220
Interest expense	34,593	-	-	34,593	-	-	-	34,593
Mortgage discounts	-	29,944	-	29,944	-	-	-	29,944
Professional fees	13,679	-	-	13,679	13,563	-	13,563	27,242
Travel and meetings	12,806	-	12,529	25,335	-	198	198	25,533
Advertising and printing	2,403	-	3,158	5,561	426	11,236	11,662	17,223
Telephone	5,142	-	3,110	8,252	689	343	1,032	9,284
Tithe to Habitat International	9,235	-	-	9,235	-	-	-	9,235
Miscellaneous	<u>2,497</u>	<u>-</u>	<u>1,266</u>	<u>3,763</u>	<u>2,376</u>	<u>-</u>	<u>2,376</u>	<u>6,139</u>
	<u>\$ 562,708</u>	<u>\$ 29,944</u>	<u>\$ 566,798</u>	<u>\$1,159,450</u>	<u>\$ 127,119</u>	<u>\$121,754</u>	<u>\$248,873</u>	<u>\$ 1,408,323</u>

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2020

CASH FLOWS FROM OPERATING ACTIVITIES

Increase in net assets	\$ 554,866
Adjustments to reconcile increase in net assets to net cash provided by operating activities:	
Depreciation	43,891
Loss on sale of assets	-
Mortgages transferred to homeowners subject to non-interest bearing advances	(35,056)
Mortgage loan discount amortization	(145,592)
(Increase) decrease in:	
Contributions and other receivables	203,197
Property held for development	16,161
Construction in progress	(574,735)
Prepaid expenses and other current assets	(3,545)
Increase (decrease) in:	
Accounts payable	11,785
Accrued expenses	6,134
Escrows held	<u>(32,640)</u>
<i>Net cash provided by operating activities</i>	<u>44,466</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Purchase of property and equipment	(34,609)
Collection of mortgages receivable	<u>185,510</u>
<i>Net cash provided by investing activities</i>	<u>150,901</u>

CASH FLOWS FROM FINANCING ACTIVITIES

Principal repayments on long term debt	(68,079)
Proceeds from long term debt	25,000
Proceeds from (repayments of) lines of credit, net	<u>21,332</u>
<i>Net cash used in financing activities</i>	<u>(21,747)</u>

NET INCREASE IN CASH 173,620

CASH, beginning 1,069,245

CASH, ending \$ 1,242,865

See Notes to Financial Statements.

HABITAT FOR HUMANITY OF EASTERN CONNECTICUT, INC.

STATEMENT OF CASH FLOWS, Continued

YEAR ENDED JUNE 30, 2020

SUPPLEMENTAL DISCLOSURES OF CASH

FLOW INFORMATION:

Operating activities reflect cash paid during the period for:

Interest	<u>\$ 34,593</u>
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SUPPLEMENTAL DISCLOSURE OF NONCASH

INVESTING ACTIVITY:

Issuance of non-interest bearing mortgage loans	\$ 65,000
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Discounts on non-interest bearing mortgage loans	<u>(29,944)</u>
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Transfers to homeowners subject to non-interest bearing mortgage loans	<u>\$ 35,056</u>
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Properties taken back for outstanding mortgage balances	<u>\$ 99,000</u>
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See Notes to Financial Statements.

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

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2020

1. Nature of Organization and Significant Accounting Policies

Nature of Organization

Habitat for Humanity of Eastern Connecticut, Inc. (“Habitat”) 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. Habitat, in the spirit of sharing, builds decent and affordable homes using volunteer labor for very low-income individuals in New London and Windham Counties. Purchasers, who have been approved and selected by Habitat based on income and need for affordable housing, volunteer their labor in partnership with Habitat and other volunteers from the community to build their homes. The homes are then sold to the individuals at cost and financed at no profit through Habitat 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.

Basis of Accounting

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

Recent Accounting Pronouncement

In June 2018, FASB issued Accounting Standards Update (ASU) 2018-08, Not-for-Profit Entities (Topic 958) - *Clarifying the Scope and the Accounting Guidance for Contributions Received and Contributions Made*. ASU 2018-08 was designed to eliminate the diversity in accounting for grants and similar contracts with government agencies. ASU 2018-08 provides specific guidance regarding exchange transactions and notes that the resource provider is not synonymous with the general public. If these awards are determined to not be an exchange transaction, then the Organization must determine if the contribution is conditional. A conditional contribution has a barrier that must be overcome (i.e. a measurable performance barrier) and if the agreement has a right of return to the contributor for assets transferred (or for a reduction, settlement, or cancellation of liabilities) or a right of release of the promisor from its obligation to transfer assets (or reduce, settle, or cancel liabilities). ASU 2018-08 is only applicable to grants in progress during 2019 and any new grants entered into after July 1, 2019, the date the Organization adopted ASU 2018-08.

Merger

On July 1, 2019, Habitat and Habitat for Humanity of the Windham Area, Inc. (HFHWA) merged their operations. The underlying purpose of the merger was to serve more families by streamlining general support services, thereby creating operating efficiencies.

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

NOTES TO FINANCIAL STATEMENTS, Continued

Net assets contributed by each organization at July 1, 2019 are as follows:

	<u>Habitat</u>	<u>HFHWA</u>
Assets		
Cash	\$ 934,908	\$134,337
Grants and other receivables	261,824	4,647
Non-interest bearing mortgages, net	1,998,833	355,780
Property held for development	1,192,554	25,605
Construction in progress	196,338	114,891
Property and equipment, net	358,293	-
Prepays and other assets	<u>97,531</u>	<u>-</u>
	<u>\$5,040,281</u>	<u>\$635,260</u>
Liabilities:		
Accounts payable and accrued expenses	\$ 108,202	\$ -
Mortgages, notes payable and lines of credit	1,101,318	-
Escrows held	<u>674</u>	<u>33,775</u>
	<u>1,210,194</u>	<u>33,775</u>
Net assets:		
Without donor restrictions	3,090,087	601,485
With donor restrictions	<u>740,000</u>	<u>-</u>
	<u>3,830,087</u>	<u>601,485</u>
	<u>\$5,040,281</u>	<u>\$635,260</u>

Net Assets

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

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

NOTES TO FINANCIAL STATEMENTS, Continued

Recognition of Support and Revenue

Grants

In accordance with ASU ("Accounting Standards Update") 2018-08, grants from government agencies are accounted for as conditional contributions. Conditional contributions are recorded when the condition has been substantially met.

Entitlement to cost reimbursement grants and contracts is conditioned on the expenditure of funds in accordance with grant restrictions and, therefore, revenue is recognized to the extent of grant expenditures. Grant receipts in excess of revenues recognized are presented as deferred revenue.

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 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.

ReStore Revenue

ReStore sales are recognized as revenue at the time the merchandise is transferred to the customer. Historically, sales returns have not been significant.

Contributions and Other Receivables

Contributions and other receivables consist primarily of amounts due from Federal Home Loan Bank. The Organization has determined that all amounts are collectible, and accordingly no allowance for potentially uncollectible accounts 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.

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 Development

Property held for development consists of land, buildings and improvements to be utilized as homes for future Habitat homeowners. Costs incurred to improve land are capitalized

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

NOTES TO FINANCIAL STATEMENTS, Continued

when incurred. The total allocated cost of each lot is charged to construction in progress upon commencement of construction activities.

Donated Services, Properties and Materials

Donated materials, which are contributed by outside parties, are recorded as support and expense, 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.

Habitat 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.

For the year ended June 30, 2020, donated materials, properties and services amounted to \$121,323.

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

Income Taxes

Habitat, 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.

Habitat files tax returns in the United States. Habitat 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. Habitat has no open tax years prior to June 30, 2017. Habitat's tax returns are subject to examination, generally for three years after they were filed.

Presentation of Sales Taxes

The State of Connecticut imposes a sales tax of 6.35% on certain types of the Organization's sales. Habitat collects that sales tax from customers and remits the entire amount to the State. Habitat'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 \$17,223 for the year ended June 30, 2020. Advertising costs consist primarily of print media.

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

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.

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 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.

Disclosure of Subsequent Events

Management has monitored and evaluated any subsequent events through January 15, 2021, the date the financial statements were available to be issued, and has determined that no events have occurred that would impact the financial statements.

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, 2020 the uninsured cash balance amounted to approximately \$650,000.

Mortgages Receivable

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

Non-interest-bearing mortgages are discounted based on prevailing market rates at the time of the sale, which results in the net mortgage receivable balances being generally less than 50% of the home's fair market value. Therefore, Habitat 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 potential credit losses.

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

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

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.

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:
Financial assets:

Cash	\$1,242,865
Grants and other receivable	63,274
Current mortgage loans receivable	<u>213,465</u>
Total financial assets	<u>1,519,604</u>

Less amounts not available to be used within one year

Net assets with donor restrictions	973,347
Less net assets with a purpose restriction expected to be met in less than one year	<u>(400,000)</u>
	<u>573,347</u>

Financial assets available to meet general expenditures within one year

\$ 946,257

The Organization plans to have sufficient financial assets to meet obligations as they come due. In addition to the financial assets available, the Organization has access to lines of credit in the amount of \$305,000 of which \$ 165,835 was fully available at June 30, 2020.

4. 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, 2020 consisted of the following:

163 Commerce Ave, Danielson	\$142,119
122 Golden Street, Norwich	128,957
126 Golden Street, Norwich	116,987
109 Flanders Road, Niantic	111,314
72 Mechanic Street, Danielson	104,518
123 Serwan Avenue, Willimantic	83,369
Baltic Street, Norwich	77,752
44 Sylvester Street, Norwich	57,801
46 Sylvester Street, Norwich	55,785
48 Sylvester Street, Norwich	52,967
47 Margerie Street, Norwich	<u>53,395</u>
	<u>\$984,964</u>

5. Mortgages Receivable

Mortgages receivable consist of sixty (60) non-interest bearing loans at June 30, 2020 which are secured by real estate and payable in monthly installments over the life of the mortgage.

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

The mortgage loans have original maturities ranging from 20 to 40 years and arose in conjunction with Habitat'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 4.03% to 7.04% 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 the Statement of Activities.

In addition to the non-interest bearing mortgage received from the sale of each home, Habitat 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 Habitat, and therefore no receivable has been recorded in the financial statements.

During the year ended June 30, 2020, the Organization took back a property from homeowners who wanted to downsize. The property was added back to Construction in Progress in the amount of \$99,000, the outstanding mortgage receivable balance at the date of the transfer, and the unamortized discount of \$50,981 was taken into income.

Mortgages receivable at June 30, 2020 consisted of the following:

Due in less than one year	\$ 213,467
Due in one to five years	726,717
Thereafter	<u>3,417,018</u>
	4,357,202
Less unamortized discount	<u>2,106,451</u>
	<u>\$2,250,751</u>

6. Property and Equipment

Property and Equipment consisted of the following at June 30, 2020:

Land and buildings	\$274,709
Equipment and vehicles	226,225
ReStore leaseholds	191,462
Furniture and fixtures	<u>19,214</u>
	711,610
Less accumulated depreciation	<u>362,599</u>
	<u>\$349,011</u>

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

NOTES TO FINANCIAL STATEMENTS, Continued

7. Lines of Credit

Habitat 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% (2.25% at June 30, 2020). There was \$109,165 outstanding under this line of credit as of June 30, 2020. This agreement remains in effect until Liberty Bank demands payment.

Habitat also has available an unsecured line of credit with Dime Bank in the amount of \$30,000. Amounts outstanding under these arrangements bear interest at the Wall Street Journal's prime rate less .5% but no less than 4.5% (4.5% at June 30, 2020). There was \$30,000 outstanding under this line of credit as of June 30, 2020. This line of credit expires in June 2021.

In addition, Habitat has available a line of credit with Putnam Bank in the amount of \$25,000 which is secured by property located at 377 Broad Street, New London, Connecticut. Amounts outstanding under this arrangement bear interest at the Wall Street Journal's prime rate less .5%. There were no amounts outstanding under this line of credit as of June 30, 2020. This agreement expires December 2021.

8. Mortgages and Notes Payable

Long-term debt at June 30, 2020 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	\$372,254
Connecticut Housing Finance Authority, eleven (11) non-interest bearing notes payable due in monthly installments ranging from \$206 to \$417, due on various dates through April 2046, secured by mortgages receivable	349,712
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	179,075
Charter Oak Bank, note payable due in monthly installments of \$422, including interest at 6.25% until January 2025, secured by a vehicle	20,162
Abel Womack, two (2) notes payable due in monthly installments of \$189, including interest ranging at 4.95% and 5.99% due May 2022 and January 2024, secured by equipment	11,347
HFHI for Self- Help Opportunity Program (SHOP), two (2) non-interest bearing notes payable due in monthly installments of \$74 to \$149, due June 2021 and December 2021, unsecured	3,847

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

Spafford Leasing, note payable due in monthly installments of \$249, including interest at 7.56%, due October 2021, secured by equipment	<u>4,009</u>
	<u>\$940,406</u>

Aggregate maturities required on long-term debt at June 30, 2020 are as follows:

<u>Year ending June 30,</u>	
2021	\$ 63,733
2022	64,405
2023	57,563
2024	52,615
2025	50,512
Thereafter	<u>651,578</u>
	<u>\$940,406</u>

9. Net Assets With Donor Restrictions

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

10. Paycheck Protection Program

Congress established the Paycheck Protection Program (PPP) to provide relief to small businesses (including tax-exempt not-for-profits) during the coronavirus pandemic as part of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. PPP funds are provided as forgivable loans that will be forgiven as long as loan proceeds are used to cover payroll, mortgage interest, rent, and utilities.

Habitat applied for and, on April 14, 2020, received \$139,233 in PPP funds. The Organization anticipates that all the PPP funds were spent on eligible costs and will be forgiven in full. Habitat has accounted for the PPP funds as a conditional contribution and as such, has recognized the PPP funds as contribution revenue as eligible costs have been incurred. Habitat spent all the funds on eligible costs incurred prior to June 30, 2020 and has therefore recognized \$139,233 as contribution revenue for the year then ended.

11. 401(k) Plan

Habitat 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. Habitat has the option of making an annual discretionary contribution. Matching contributions amounted to approximately \$8,500 for the year ended June 30, 2020. No discretionary contributions were made for the year ended June 30, 2020.

12. Operating Lease

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

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

Habitat leases 10,000 square feet of space in Waterford, Connecticut. The term of the lease was for three years commencing February 1, 2013 and required annual rent payments of \$75,000. Habitat has four options for additional terms of three years each. Annual rent for each of the three-year option periods are as follows: \$76,500, February 1, 2016 to January 31, 2019; \$78,400, February 1, 2019 to January 31, 2022; \$80,400, February 1, 2022 to January 31, 2025; \$82,400, February 1, 2015 to January 31, 2028. Habitat has exercised the option for the period February 1, 2019 to January 31, 2022.

Habitat leases space for an additional store located in Plainfield, Connecticut for the Eastern Windham County ReStore. The term of the lease was for three years commencing October 1, 2013 and required annual rent payments of \$48,924, plus reimbursement for sewer, water and property taxes through September 2016. Habitat has four options for additional terms of three years each. Annual rent for each of the three-year option periods are as follows: \$55,080, October 1, 2016 to September 30, 2019; \$56,184, October 1, 2019 to September 30, 2022; \$57,312, October 1, 2022 to September 30, 2025; \$58,452, October 1, 2015 to September 30, 2028. Habitat has exercised the option for the period October 1, 2019 to September 30, 2022.

Rent expense under these leases amounted to approximately \$147,000 for the year ended June 30, 2020.

The future minimum lease payments are as follows:

<u>Year ending June 30,</u>	
2021	\$134,584
2022	101,917
2023	<u>14,046</u>
	<u>\$250,547</u>

13. Tithe

Habitat 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. The contributions to HFHI for the year ended June 30, 2020 amounted to \$9,235.

14. Contingency

At times, Habitat 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 \$394,000 at June 30, 2020.

In addition, Habitat 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 \$21,000 at June 30, 2020.

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

NOTES TO FINANCIAL STATEMENTS, Continued

15. COVID-19

In December 2019, an outbreak of a novel strain of coronavirus (COVID-19) originated in Wuhan, China and has since spread to other countries, including the U.S. On March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. On March 20, 2020, Connecticut Governor ordered "Stay Safe, Stay Home" restrictions on all workplaces for non-essential business for what may be an extended period of time. The extent of the potential impact of COVID-19 on Habitat's operational and financial performance depends on certain developments, including the duration and spread of the outbreak and its impacts on Habitat's clients, employees and vendors, all of which at present, cannot be determined. Accordingly, the extent to which COVID-19 may impact Habitat's financial position and changes in net assets and cash flows is uncertain and the accompanying financial statements include no adjustments relating to the effects of this pandemic.