

**Habitat for Humanity
of Greater Cincinnati**

Financial Statements

June 30, 2023 and 2022



Habitat for Humanity of Greater Cincinnati

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June 30, 2023 and 2022

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Independent Auditor's Report

To the Board of Directors of
Habitat for Humanity of Greater Cincinnati

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Greater Cincinnati ("Habitat") (a nonprofit corporation) which comprise the statements of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years 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 as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits 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 and to meet our other ethical responsibilities in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Restatement of the June 30, 2022 Financial Statements

As discussed in Note 20 to the financial statements, during the current year, management determined that the Organization was eligible and qualified for the Employee Retention Tax Credit. Consequently, certain amounts previously reported for receivables and grant revenue have been restated in the June 30, 2022 financial statements now presented, and an adjustment has been made to the opening balance of net assets without donor restrictions. Our opinion is not modified with respect to that matter.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the 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'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'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'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.



Certified Public Accountants

Cincinnati, Ohio

November 30, 2023

Habitat for Humanity of Greater Cincinnati
Statements of Financial Position
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Assets		
Current Assets		
Cash and cash equivalents	\$ 1,900,661	\$ 11,589,366
Loss reserve fund	512,992	471,304
Deposit - mortgage service provider (\$304,335 and \$264,288 held under agency in 2023 and 2022, respectively)	415,867	354,957
Deposits	10,000	11,000
Pledges receivable	145,382	125,000
Grants receivable	100,000	0
Other receivables, net of allowance	425,365	883,782
Investments	7,948,392	0
Prepaid expenses	59,836	27,936
Building supply inventory	192,726	211,344
ReStore inventory	646,611	445,888
Construction in progress	2,100,503	839,702
Mortgage loans receivable, net of discount	409,556	501,806
Total Current Assets	<u>14,867,891</u>	<u>15,462,085</u>
Property and Equipment, at net book value	<u>324,331</u>	<u>337,293</u>
Other Assets		
Pledges receivable, net of discount	112,734	219,793
Homes available for sale	38,069	51,277
Land for development	785,116	865,360
Mortgage loans receivable, net of discount	3,693,628	3,695,438
Deposits	11,113	5,863
Right-of-use lease assets - finance	61,670	0
Right-of-use lease assets - operating	1,999,527	0
Total Other Assets	<u>6,701,857</u>	<u>4,837,731</u>
Total Assets	<u>\$ 21,894,079</u>	<u>\$ 20,637,109</u>

Habitat for Humanity of Greater Cincinnati
Statements of Financial Position (Continued)
June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	\$ 381,987	\$ 298,977
Accrued expenses	78,866	44,473
Accrued payroll	349,016	191,034
Agency liability	307,963	301,322
Current portion of capital lease obligations	0	31,555
Short-term finance lease liability	25,752	0
Short-term operating lease liability	406,021	0
Total Current Liabilities	<u>1,549,605</u>	<u>867,361</u>
Long-Term Liabilities		
Capital lease obligations	0	68,940
Long-term finance lease liability	43,760	0
Long-term operating lease liability	1,611,363	0
Total Long-Term Liabilities	<u>1,655,123</u>	<u>68,940</u>
Total Liabilities	<u>3,204,728</u>	<u>936,301</u>
Net Assets		
Without donor restrictions	18,128,824	19,336,540
With donor restrictions	560,527	364,268
Total Net Assets	<u>18,689,351</u>	<u>19,700,808</u>
Total Liabilities and Net Assets	<u>\$ 21,894,079</u>	<u>\$ 20,637,109</u>

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Cincinnati
Statement of Activities
For the Year Ended June 30, 2023

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions and grants	\$ 2,836,478	\$ 340,734	\$ 3,177,212
In-kind contributions	3,484,813	0	3,484,813
Fundraising activities	28,565	0	28,565
Transfers to homeowners	1,839,028	0	1,839,028
Mortgage loan discount amortization	405,097	0	405,097
ReStore sales	3,609,690	0	3,609,690
Repair program	32,230	0	32,230
Recycling	9,761	0	9,761
Rebates	18,690	0	18,690
Miscellaneous revenue	69,176	0	69,176
Investment return, net	238,268	0	238,268
Other gains and revenue	622,273	0	622,273
Net assets released from restrictions	144,475	(144,475)	0
Total Support and Revenue	<u>13,338,544</u>	<u>196,259</u>	<u>13,534,803</u>
Expenses			
Program services	13,427,830	0	13,427,830
Supporting services:			
Fundraising	602,922	0	602,922
Management and general	515,508	0	515,508
Total Expenses	<u>14,546,260</u>	<u>0</u>	<u>14,546,260</u>
Change in Net Assets	(1,207,716)	196,259	(1,011,457)
Net Assets – Beginning of Year	<u>19,336,540</u>	<u>364,268</u>	<u>19,700,808</u>
Net Assets – End of Year	<u>\$ 18,128,824</u>	<u>\$ 560,527</u>	<u>\$ 18,689,351</u>

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Cincinnati
Statement of Activities
For the Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Support and Revenue			
Contributions and grants	\$ 11,150,039	\$ 364,268	\$ 11,514,307
In-kind contributions	3,678,001	0	3,678,001
Fundraising activities	30,079	0	30,079
Transfers to homeowners	1,706,531	0	1,706,531
Mortgage loan discount amortization	399,131	0	399,131
ReStore sales	3,626,317	0	3,626,317
Repair program	33,518	0	33,518
Recycling	9,907	0	9,907
Rebates	20,422	0	20,422
Miscellaneous revenue	655,693	0	655,693
Other gains and revenue	100,295	0	100,295
Net assets released from restrictions	34,050	(34,050)	0
Total Support and Revenue	<u>21,443,983</u>	<u>330,218</u>	<u>21,774,201</u>
Expenses			
Program services	12,925,403	0	12,925,403
Supporting services:			
Fundraising	525,696	0	525,696
Management and general	335,921	0	335,921
Total Expenses	<u>13,787,020</u>	<u>0</u>	<u>13,787,020</u>
Change in Net Assets	7,656,963	330,218	7,987,181
Net Assets – Beginning of Year	<u>11,679,577</u>	<u>34,050</u>	<u>11,713,627</u>
Net Assets – End of Year	<u>\$ 19,336,540</u>	<u>\$ 364,268</u>	<u>\$ 19,700,808</u>

Habitat for Humanity of Greater Cincinnati
Statement of Functional Expenses
For the Year Ended June 30, 2023

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	
Salaries and benefits	\$ 3,699,017	\$ 421,362	\$ 348,003	\$ 4,468,382
Cost of homes transferred	2,439,429	0	0	2,439,429
Building services and supplies	268,289	0	0	268,289
Vehicles	203,999	1,166	504	205,669
Rent	468,543	0	1,980	470,523
Utilities	181,409	168	9,681	191,258
Publicity	23,705	72,162	0	95,867
Habitat International support	174,000	0	0	174,000
Bad debts	5,898	0	0	5,898
Professional fees	107,585	0	28,325	135,910
Insurance	71,150	0	47,434	118,584
Interest	4,073	0	4,072	8,145
Repair program	749,471	0	0	749,471
ReStore cost of sales	3,580,687	0	0	3,580,687
Travel and entertainment	8,202	1,109	1,677	10,988
Office and administration	430,580	47,750	30,974	509,304
Education	15,768	10,973	7,099	33,840
Volunteer support	11,944	0	0	11,944
Family selection and services	60,346	0	0	60,346
Other	27,935	46,292	2,243	76,470
Discounts on mortgages	846,270	0	0	846,270
Depreciation	49,530	1,940	1,940	53,410
Amortization	0	0	31,576	31,576
	<u>\$ 13,427,830</u>	<u>\$ 602,922</u>	<u>\$ 515,508</u>	<u>\$ 14,546,260</u>

Habitat for Humanity of Greater Cincinnati
Statement of Functional Expenses
For the Year Ended June 30, 2022

	<u>Supporting Services</u>			<u>Total</u>
	<u>Program Services</u>	<u>Fundraising</u>	<u>Management and General</u>	
Salaries and benefits	\$ 3,104,056	\$ 400,769	\$ 229,445	\$ 3,734,270
Cost of homes transferred	2,613,847	0	0	2,613,847
Building services and supplies	231,528	0	0	231,528
Vehicles	114,508	395	561	115,464
Rent	450,574	0	1,980	452,554
Utilities	163,385	550	7,226	171,161
Publicity	48,104	62,546	0	110,650
Habitat International support	919,000	0	0	919,000
Professional fees	74,214	0	13,475	87,689
Insurance	59,710	0	39,807	99,517
Interest	6,170	0	6,170	12,340
Repair program	287,699	0	0	287,699
ReStore cost of sales	3,647,053	0	0	3,647,053
Travel and entertainment	7,595	773	284	8,652
Office and administration	350,395	35,332	17,932	403,659
Education	97,837	17,984	16,915	132,736
Volunteer support	6,510	0	0	6,510
Family selection and services	47,478	0	0	47,478
Other	24,263	5,407	187	29,857
Discounts on mortgages	588,271	0	0	588,271
Depreciation	83,206	1,940	1,939	87,085
	<u>\$ 12,925,403</u>	<u>\$ 525,696</u>	<u>\$ 335,921</u>	<u>\$ 13,787,020</u>

Habitat for Humanity of Greater Cincinnati
Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Change in net assets	\$ (1,011,457)	\$ 7,987,181
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Transfers to homeowners	(1,839,028)	(1,706,531)
Depreciation	53,410	87,085
Amortization - right of use assets	31,576	0
Interest expense - lease liabilities	8,145	0
Discount expense	846,270	588,271
Mortgage loan discount amortization	(405,097)	(399,131)
Gain on sale of mortgage loans	(528,649)	0
Gain on buyback of mortgage loans	(16,593)	0
(Gain) or loss on disposal of fixed assets	8,632	(5,000)
Realized and unrealized (gain) or loss on investments	(104,555)	659
In-kind donations of land for development	(43,750)	(7,510)
In-kind donations of stock	(15,495)	(16,518)
In-kind donations of construction in progress	(71,774)	(46,890)
In-kind contribution of ReStore inventory, net	(200,723)	(107,450)
Refundable advance forgiven	0	(622,300)
Noncash rent expense	494,881	0
Changes in assets and liabilities:		
Pledges receivable, net of discount	86,677	(306,863)
Grants receivable	(100,000)	0
Other receivables, net of allowance	458,417	(394,106)
Prepaid expenses	(31,900)	21,272
Building supply inventory	18,618	(45,521)
Construction in progress	(1,189,027)	240,551
Homes available for sale	57,648	58,762
Land for development	123,994	39,557
Deposits	(4,250)	2,000
Accounts payable	83,010	(82,354)
Accrued expenses	34,393	(6,519)
Accrued payroll	157,982	(18,357)
Agency liability	6,641	8,176
Operating lease liability	(477,024)	0
Net Cash Provided by (Used in) Operating Activities	<u>\$ (3,569,028)</u>	<u>\$ 5,268,464</u>

Habitat for Humanity of Greater Cincinnati
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Investing Activities:		
Payments and credits on mortgage receivables	\$ 810,267	\$ 900,937
Purchase of property and equipment	(141,502)	(56,016)
Purchase of mortgage loan buybacks	(1,513,873)	0
Purchase of investments	(7,828,342)	0
Proceeds from sale of mortgage loans	2,696,323	1,118,260
Proceeds from sale of property and equipment	0	5,000
Proceeds from sale of investments	0	15,859
Net Cash Provided by (Used In) Investing Activities	<u>(5,977,127)</u>	<u>1,984,040</u>
Cash Flows Used in Financing Activities:		
Payments on capital lease obligations	0	(47,165)
Finance lease liability	(39,952)	0
Net Cash Used In Financing Activities	<u>(39,952)</u>	<u>(47,165)</u>
Change in Cash and Cash Equivalents and Restricted Cash	(9,586,107)	7,205,339
Cash and Cash Equivalents and Restricted Cash:		
Beginning of year	<u>12,415,627</u>	<u>5,210,288</u>
End of year	<u>\$ 2,829,520</u>	<u>\$ 12,415,627</u>
Supplemental Disclosures of Cash Flow Information:		
Non-cash investing and financing activities:		
Transfers to homeowners subject to non-interest bearing mortgage loans	\$ 1,839,028	\$ 1,706,531
Net transfers to homes available for sale from mortgage loans receivable	\$ 44,440	\$ 59,679
Refundable advance forgiven	\$ 0	\$ 622,300
Cash paid during the period for:		
Interest	\$ 0	\$ 12,341

Habitat for Humanity of Greater Cincinnati
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Supplemental Disclosures of Cash Flow Information:		
Non-cash investing and financing activities (continued):		
Acquisition of operating lease right-of-use assets through the assumption of operating lease liabilities	\$ 2,431,403	\$ 0
Acquisition of finance lease right-of-use assets through the assumption of finance lease liabilities	\$ 823	\$ 0
Transition of fixed asset to right-of-use asset	\$ 92,422	\$ 0
Transition of capital lease liability to finance lease liability	\$ 100,495	\$ 0

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

1. Organization and Purpose

Habitat for Humanity of Greater Cincinnati (“Habitat”) (a nonprofit corporation) is affiliated with Habitat for Humanity International (“HFHI”), a nonprofit, ecumenical housing ministry. HFHI seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Habitat invites people of all backgrounds, races, and religions to build houses together in partnership with families in need.

2. Summary of Significant Accounting Policies

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America for nonprofit organizations. Habitat 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. A description of each class as it pertains to Habitat is as follows:

Net Assets Without Donor Restrictions – Represents net assets available for use in general operations and not subject to donor restrictions.

Net Assets With Donor Restrictions – Represents net assets subject to donor imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor-imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. 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.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates.

Cash and Cash Equivalents and Restricted Cash

Habitat considers cash and cash equivalents to be all highly liquid demand accounts that include checking and savings.

Habitat also considers investments in money market funds to be cash equivalents. These funds are covered by the Securities Investor Protection Corporation (SIPC) and are insured in the event of fraudulent brokerage activity only and therefore, still carry a moderate level of risk. Cash and cash equivalents include \$805,449 and \$79 of money market funds for the years ended June 30, 2023 and 2022, respectively.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Cash and Cash Equivalents and Restricted Cash (Continued)

The following table provides a reconciliation of cash and restricted cash reported within the statements of financial position to the amount of total cash shown in the statements of cash flows:

	<u>2023</u>	<u>2022</u>
Cash and cash equivalents	\$ 1,900,661	\$ 11,589,366
Deposit – mortgage service provider	415,867	354,957
Loss reserve fund	512,992	471,304
	<u>\$ 2,829,520</u>	<u>\$ 12,415,627</u>

A third-party mortgage servicer, AmeriNat, maintains a deposit on account for Habitat in order to pay insurance and property taxes for homeowners and to cover delinquent payments. The deposit amount is based on payments processed. The balance of the deposits at AmeriNat at June 30, 2023 and 2022 was \$415,867 and \$354,957, respectively.

Habitat entered into a Loan Pool Agreement that requires a loss reserve fund, which is considered restricted cash. The loss reserve fund totaled \$512,992 and \$471,304 at June 30, 2023 and 2022, respectively. See Note 15.

Concentration of Credit Risk

Habitat maintains its cash and loss reserve balances in various financial institution accounts, which at times may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Habitat believes it is not exposed to any significant credit risk on cash. Habitat's concentration of credit risk with respect to mortgage loans receivable depends on its partner families' ability to repay, which varies with economic conditions in this geographic area.

Agency Liabilities

Amounts held under agency for insurance, property taxes and other fees at June 30, 2023 and 2022 totaled \$304,335 and \$264,288, respectively.

Habitat receives and distributes funds under an agency arrangement with certain banks. Habitat services mortgages previously sold to banks and remits payments received from homeowners to the banks. Amounts held under agency for serviced mortgages at June 30, 2023 and 2022 totaled \$3,628 and \$37,034, respectively.

Pledges Receivable

Pledges receivable represent unconditional pledges from donors to contribute cash to Habitat. Conditional pledges received are not recognized in the financial statements until the conditions are substantially met. Pledges receivable are recognized when the promise to give is received at the net present value of their estimated future cash flows. Management reviewed pledges receivable and has determined no allowance for doubtful accounts is considered necessary as of June 30, 2023 and 2022. For the years ended June 30, 2023 and 2022, Habitat recorded bad debt expense of \$5,898 and \$0, respectively, with respect to pledges receivable.

Grants Receivable

Grants receivable represent foundation grants awarded to Habitat but still unpaid at year end.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Other Receivables

Habitat records other receivables that consist of insurance, property taxes and condominium association assessments paid by Habitat on behalf of homeowners with insufficient escrow balances, and other amounts due from employees. These balances totaled \$86,875 and \$114,521 at June 30, 2023 and 2022, respectively. Due to the suspect collectability of these balances management has recorded an allowance for doubtful accounts of \$31,903 and \$6,537 at June 30, 2023 and 2022, respectively. For the years ended June 30, 2023 and 2022, Habitat recorded no bad debt expense with respect to other receivables.

Amounts receivable related to the Employee Retention Tax Credit (ERTC) of \$370,393 and \$775,798 were also reported as other receivables at June 30, 2023 and 2022, respectively. See Note 20.

Investments

Investments are stated at fair value in the statements of financial position. Investment return includes interest, dividends, realized and unrealized gains and losses, and other investment income and is included in the statements of activities.

Building Supply Inventory

Building supply inventory consists of building materials for future homes. The inventory is valued at net realizable value. Management has deemed no allowance of obsolescence is necessary at June 30, 2023 and 2022.

Construction in Progress

Construction in progress represents pre-acquisition, acquisition, development and construction costs, including donated building materials or services, of homes either under construction or completed but not yet transferred to homeowners. Construction in progress is valued at purchased cost, or if donated, at the fair market value as of the date of donation. Costs incurred in conjunction with home construction are capitalized until the completion of each home. Following is a summary of home building activity:

	<u>Number</u>	<u>Costs</u>
Homes under construction, July 1, 2021	20	\$ 1,033,363
Additional costs incurred on beginning inventory		897,181
New homes started during the period	16	1,515,379
Homes transferred during the period	<u>(15)</u>	<u>(2,606,221)</u>
Homes under construction, July 1, 2022	21	839,702
Additional costs incurred on beginning inventory		1,888,259
New homes started during the year	23	1,814,354
Homes transferred during the year	<u>(14)</u>	<u>(2,441,812)</u>
Homes under construction, June 30, 2023	<u>30</u>	<u>\$ 2,100,503</u>

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Mortgage Loans Receivable

Mortgage loans receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. The mortgage loans have an original maturity of twenty to thirty years and arise in connection with Habitat's homebuilding initiatives. Homeowners can prepay the mortgage at any time. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or Habitat may accept back the deed in lieu of foreclosure where homeowner mortgage payments are deemed seriously delinquent. Properties acquired through foreclosure or accepting a deed in lieu of foreclosure may be sold directly on the open market or refurbished in partnership with and sold to other families in need of decent, affordable housing. Consequently, no allowance for credit losses has been established for mortgages receivable as of June 30, 2023 and 2022. For the years ended June 30, 2023 and 2022, Habitat recorded no bad debt expense with respect to mortgage loans receivable.

During the year ended June 30, 2023, Habitat bought back twenty-one previously sold mortgages for \$1,145,340 and immediately sold those mortgages for \$1,678,376, resulting in a gain on the sale of mortgages of \$533,036. Habitat also purchased six additional previously sold mortgages which were recorded with a mortgage loan receivable in the amount of \$379,767. Habitat paid \$368,533 in cash to receive the mortgages back, resulting in a gain on purchase of mortgages in the amount of \$11,234.

During the year ended June 30, 2022, Habitat did not buy back any previously sold mortgages into receivables.

Property and Equipment

Habitat capitalizes all expenditures for property and equipment in excess of \$3,000 that have a useful life of 3 years or more. Property and equipment are recorded at acquisition cost, including costs necessary to get the asset ready for its intended use. Donated property and equipment is recorded at fair value at the date of donation. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, ranging from 3 to 30 years.

Impairment of Long-Lived Assets

Habitat reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying value may not be recoverable. Recoverability is measured by a comparison of the carrying amount to the future net undiscounted cash flow expected to be generated and any estimated proceeds from the eventual disposition. If the long-lived asset is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount exceeds the fair value. No impairment losses were recognized during the years ended June 30, 2023 and 2022.

Homes Available for Sale

Homes available for sale consisted of 2 properties as of June 30, 2023 and 2022. Homes available for sale are valued at purchased cost, or if donated, at the fair market value at the date of donation. Reclaimed homes are recorded at the outstanding mortgage balance, net of discount, and any other amounts due Habitat at the date of reclamation.

Land for Development

Land for development consisted of 87 and 99 properties as of June 30, 2023 and 2022, respectively. Land for development is valued at purchased cost, or if donated, at the fair market value at the date of donation.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Lease Commitments

Effective July 1, 2022, Habitat adopted FASB ASC 842, *Leases*, which among other things, requires the recognition of right-of-use lease assets and lease liabilities on the statement of financial position of lessees for finance and operating leases, along with the disclosure of key information about leasing arrangements. All nonprofit organizations with fiscal years beginning after December 15, 2021 were required to adopt this new standard. A lessee is required to record lease assets and lease liabilities for all leases with a term of greater than 12 months. Habitat determines if an arrangement contains a lease at inception based on whether Habitat has the right to control the asset during the contract period and other facts and circumstances.

In adopting the new lease standard, Habitat elected to use a transition method under which existing leases were measured and capitalized as of the date of adoption, July 1, 2022, in lieu of applying the standard retrospectively to July 1, 2021. Consequently, the 2022 financial statements and disclosures do not reflect the effects of implementing the new lease standard.

Additionally, as part of the implementation, Habitat elected the following practical expedients related to the adoption of this new standard:

1. Habitat elected the transition method to adopt the new standard at the beginning of the period of adoption through a cumulative-effect adjustment. Under the transition method, the application date shall be the beginning of the reporting period in which the entity first applies the new standard (July 1, 2022).
2. An entity need not reassess whether any expired or existing contracts are or contain leases.
3. An entity need not reassess initial direct costs for any existing leases.
4. Account for lease and non-lease components as a single combined lease component.

The new standard requires that leases with a lease term of more than 12 months be classified as either finance or operating leases. Leases are classified as finance leases when Habitat expects to consume a major part of the economic benefits of the leased assets over the remaining lease term. Conversely, Habitat is not expected to consume a major part of the economic benefits of assets classified as operating leases. The lease classification affects both the pattern and presentation of expense recognized in the income statement, the categorization of assets and liabilities in the balance sheet, and classification of cash flows in the statement of cash flows.

Total lease cost consists of two components; amortization expense related to the write-off of right-of-use assets, and interest expense from lease obligations.

For financing leases, total lease cost is recorded on an accelerated basis whereby interest expense is recorded using the effective interest method and right-of-use assets are amortized on a straight-line basis over the remaining lease term. For operating leases, total lease cost is measured and recorded on a straight-line basis over the lease term.

Lease obligations are measured and recorded at the present value of future lease payments using a discount rate. Because Habitat generally does not have access to the rate implicit in each lease, Habitat has elected to measure its lease obligations using a risk-free rate of return as the discount rate, which is permitted for non-public entities. Habitat elected to use the US Treasury rate at the lease commencement date for the computation of its lease obligation, determined by using a period comparable with that of the lease term.

Right-of-use assets are generally measured and recorded at the sum of the lease obligation, any initial direct costs to consummate the lease, and any lease payments made on or before the commencement date.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition

Habitat recognizes revenue based on the existence or absence of an exchange transaction. Revenues from exchange type transactions are recognized as revenue as Habitat satisfies its performance obligations by providing a service or transferring control over a product to its customers. This type of transaction can be recognized at “a point in time” or “over a period of time” depending on various factors. Habitat’s primary revenue streams, which are accounted for as exchange transactions, consist of home sales, and ReStore sales.

Habitat generates revenue through the sale of homes to program participants and financing the sale through a mortgage agreement with 0% interest. Habitat has identified two performance obligations associated with the sale of homes: (1) transfer of the title of the home to the homeowner, and (2) financing the purchase price of the home. The transaction price for the property is identified and stated on the closing agreement and is consistent with the gross amount of revenue recorded at the time of an executed closing agreement. With respect to home sales, Habitat is the principal in the arrangement as they maintain control of the property up until the time at which the property is sold to the homeowner. Since the mortgages are at 0% interest, Habitat imputes interest on the mortgage by discounting the transaction price to present value based on a discount rate set by Habitat for Humanity International at the end of each fiscal year (ranging from 6.0% - 9.0%). The present value of the transaction price is allocated to the first performance obligation, with development costs of homes included as construction costs. For mortgages retained by Habitat, the imputed interest or "discount" is allocated to the second performance obligation, which are amortized using the straight-line method over the lives of the mortgages. In lieu of Habitat directly providing a mortgage loan agreement with 0% interest, Habitat may utilize Loan Pool Agreements (see Note 15) to finance the sale of homes.

Revenue allocated to the first performance obligation is recorded at the point in time when control of the property transfers. This is the point in time at which Habitat has satisfied its first performance obligation to transfer control of the property to the homeowner as evidenced by an executed closing statement. Revenue allocated to the second performance obligation is recognized over the mortgage term as payments are collected. Contract liabilities relate mainly to homeowner deposits in escrow.

Revenue related to the ReStore sales is recognized at the time of sale.

Revenues from non-exchange type transactions, including contributions and reimbursement type grants, which are classified as conditional contributions, are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. Conditional contributions are recognized as revenue when the conditions on which they depend are substantially met.

Habitat generates revenue from special events. Accounting guidance suggests that the exchange of assets or performance of services in exchange for assets of substantially lower value may be deemed to be a partial contribution. Such contribution would be measured at the difference between the fair value of the products provided or services performed, and the consideration received. Management concludes that the benefit to donors related to special events is immaterial in comparison to the consideration received by the donor as typically all that is received is insignificant amounts of food and beverage during the event. As such, consideration received through the conducting of special events is considered a contribution transaction.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Contributions

Contributions received are recorded as without donor restrictions or with donor restrictions depending on the existence and/or nature of any donor restrictions. Support that is restricted by the donor is reported as an increase in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other donor-restricted support is reported as an increase in net assets with donor restrictions. When a restriction expires (that is, when a stipulated time restriction ends, or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

For the years ended June 30, 2023 and 2022, Board Members and staff contributed approximately \$21,000 and \$28,000 to Habitat, respectively. These amounts are included in contributions and grants on the statements of activities.

Donated Goods and Services

Habitat records contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets, in compliance with ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. Contributed nonfinancial assets are disaggregate by category type and other qualitative information about utilization, policies, and valuation techniques. See Note 12.

Donated materials are recorded as in-kind contributions at their estimated fair value at the date of donation. Donated services are recognized as contributions if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills, and would otherwise be purchased by Habitat. For the years ended June 30, 2023 and 2022, there were no donated services recognized as contributions. A substantial number of volunteers have made significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in these financial statements since it does not meet the criteria defined above.

Advertising Costs

Advertising costs are charged to operations when incurred. Advertising expense for the years ended June 30, 2023 and 2022 was \$95,867 and \$110,650, respectively.

Warranty Costs

Warranty costs are charged to operations when incurred. Warranty expense for the years ended June 30, 2023 and 2022 was \$27,602 and \$29,067, respectively, and included in building services and supplies expense.

Functional Allocation of Expenses

The costs of providing various programs and related supporting services have been summarized on a functional basis in the statements of functional expenses. Accordingly, certain costs have been allocated to the appropriate programs and supporting services.

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. Habitat charges all expenses directly related to the fulfillment of its mission to program services based on direct identification of the costs for each program. Expenses that are not directly related to a single program or activity but are indispensable to the conduct of the Habitat's programs or existence are charged to management and general. Expenses relating to activities undertaken to induce contributions are charged to fundraising. Certain administrative costs including insurance, interest, and depreciation, are allocated on the basis of estimates of personnel time and a space utilization schedule.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

2. Summary of Significant Accounting Policies (Continued)

Income Taxes

A favorable determination letter has been obtained from the Internal Revenue Service exempting Habitat from federal income taxes pursuant to Section 501(c)(3) of the Internal Revenue Code. Accordingly, no provision for federal income tax is included in these statements. However, any income from certain activities not directly related to Habitat's tax exempt purpose may be subject to taxation as unrelated business income.

Accounting principles generally accepted in the United States of America prescribe attributes for the financial statement recognition and measurement of a tax position taken, or expected to be taken, in a tax return. It requires affirmative evaluation that it is more-likely-than-not, based on the technical merits of a tax position, that an enterprise is entitled to economic benefits resulting from positions taken in income tax returns. If a tax position does not meet the more-likely-than-not recognition threshold, the benefit of that position is not recognized in the financial statements, and additional disclosures about uncertain tax positions are required.

Habitat's evaluation as of June 30, 2023 revealed no tax positions that, if overturned, would have a material impact on the financial statements, including any position that would place Habitat's exempt status in jeopardy at June 30, 2023. The 2019 through 2021 tax years remain subject to examination by the Internal Revenue Service. Habitat does not believe that any reasonable possible changes will occur within the next twelve months that will have a material impact on the financial statements.

Reclassification

Certain amounts have been reclassified in the prior year to conform to the current year's presentation.

3. Liquidity and Availability

The following reflects Habitat's financial assets as of June 30, 2023, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year.

Cash and cash equivalents	\$	1,900,661
Deposit – mortgage service provider		415,867
Investments		7,948,392
Other receivables, net of allowance		425,365
Pledges receivable - current portion		145,382
Grants receivable		100,000
Mortgage loans receivable, net of discount - current portion		409,556
Financial assets at June 30, 2023		<u>11,345,223</u>
Less those unavailable for general expenditures within one year, due to:		
Subject to satisfaction of donor restrictions		(315,145)
Agency liabilities		<u>(304,335)</u>
Financial assets available to meet cash needs for general expenditures within one year	\$	<u><u>10,725,743</u></u>

Habitat is supported by contributions, which may contain donor restrictions. Because a donor's restriction requires resources to be used in a particular manner or in a future period, Habitat must maintain sufficient resources to meet those responsibilities to its donors. Thus, financial assets may not be available for general expenditure within one year. As part of Habitat's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

4. Pledges Receivable

Pledges receivable include unconditional promises to give which are due in future years. Amounts due in more than one year have been discounted to the estimated net present value using a 5.3% discount rate. Pledges receivable are expected to be collected as follows subsequent to June 30, 2023:

Due by June 30, 2024	\$	145,382
Due by June 30, 2025		<u>125,000</u>
TOTAL		270,382
Less: discounts to present value		<u>(12,266)</u>
	\$	<u>258,116</u>

5. Other Receivables

The following is a summary of other receivables at June 30:

	<u>2023</u>	<u>2022</u>
Condominium association assessments paid for homeowners	\$ 12,620	\$ 11,652
Escrows paid for homeowners	73,961	73,665
Contractor receivable	294	29,204
Employee Retention Tax Credit receivable	<u>370,393</u>	<u>775,798</u>
TOTAL	457,268	890,319
Less: allowance for doubtful accounts	<u>(31,903)</u>	<u>(6,537)</u>
	<u>\$ 425,365</u>	<u>\$ 883,782</u>

6. Investments

Investments are stated at fair value and are comprised of the following at June 30:

	<u>2023</u>	<u>2022</u>
Equity securities	\$ 15,185	\$ 0
Fixed income securities	2,820,137	0
Mutual funds	5,113,070	0
	<u>\$ 7,948,392</u>	<u>\$ 0</u>

A summary of investment return includes the following for the years ended June 30:

	<u>2023</u>	<u>2022</u>
Unrealized gains (losses)	\$ 104,555	\$ 0
Interest and dividend income	133,713	0
	<u>\$ 238,268</u>	<u>\$ 0</u>

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

7. Mortgage Loans Receivable

The following tables summarize the age analysis of mortgage loans receivable at June 30:

	2023	2022
Consumer mortgage loans secured by real estate:		
Current	\$ 5,151,605	\$ 4,841,234
31 – 60 days past due	613,724	1,264,591
61 – 90 days past due	597,642	347,742
Greater than 90 days past due	1,221,948	1,379,714
TOTAL	7,584,919	7,833,281
Less: discounts to present value	(3,481,735)	(3,636,037)
	<u>\$ 4,103,184</u>	<u>\$ 4,197,244</u>

At June 30, 2023, three homes were in the foreclosure process with a discounted value of \$90,461. During the years ended June 30, 2023 and 2022, no deeds were received in lieu of foreclosure.

8. Property and Equipment

Property and equipment consist of the following at June 30:

COST:	2023	2022	Estimated Useful Life in Years
Construction equipment	\$ 109,819	\$ 109,819	5 – 7
Office equipment	125,679	129,670	3 – 7
Computer equipment	65,582	85,300	3 – 7
Leasehold improvements	254,570	239,152	15
Vehicles	324,019	456,260	5
Warehouse buildings	48,968	48,968	30
Land	44,300	44,300	-
TOTAL	972,937	1,113,469	
Less: accumulated depreciation	(648,606)	(776,176)	
	<u>\$ 324,331</u>	<u>\$ 337,293</u>	

Depreciation expense was \$53,410 and \$87,085 for the years ended June 30, 2023 and 2022, respectively.

9. Lease Commitments

Habitat leases vehicles under finance leases with terms expiring in 2025. There are no renewal options on the lease agreements.

Habitat leases office equipment under operating leases with terms expiring through 2026. Renewal options are included in the lease agreements, but Habitat is not reasonably certain to exercise any of them.

Habitat leases facilities throughout Ohio and Kentucky for its ReStores, office, and warehouse under operating leases with terms expiring through 2028. Renewal options are included in the lease agreements, but Habitat is not reasonably certain to exercise all of them.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

9. Lease Commitments (Continued)

Only lease options that Habitat believes it is reasonably certain to exercise are included in the measurement of the lease assets and liabilities. The lease agreements do not include any material residual value guarantees or restrictive covenants. Habitat uses the risk-free rate at each lease commencement date as the discount rate for each lease.

The components of finance and operating lease expenses that are included in expenses in the statement of activities for the year ended June 30, 2023 were as follows:

Finance lease expense	
Amortization of right of use assets	\$ 31,576
Interest on lease liabilities	8,145
Operating lease cost	494,881
Short-term lease cost	30,000
Total lease cost	<u>\$ 564,602</u>

The following summarizes the cash flow, weighted average lease term, and discount rate information related to finance and operating leases for the year ended June 30, 2023:

	<u>2023</u>
Cash paid for amounts included in the measurement of lease liabilities:	
Operating cash flows from finance leases (i.e., interest)	\$ 7,572
Financing cash flows from finance leases (i.e., principal portion)	32,380
Operating cash flows from operating leases	475,274
Noncash transactions:	
Right of use assets obtained in exchange for new finance lease liabilities	\$ 101,318
Right of use assets obtained in exchange for new operating lease liabilities	2,429,653
Weighted-average remaining lease term in years:	
Finance leases	2.50
Operating leases	6.39
Weighted-average discount rate:	
Finance leases	9.98%
Operating leases	2.90%

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

9. Lease Commitments (Continued)

A summary of the future lease payments for operating and finance leases, reconciled to the lease liability recorded at June 30, 2023 follows:

<u>Year</u>	<u>Finance</u>	<u>Operating</u>
2024	\$ 31,272	\$ 458,046
2025	31,272	385,572
2026	15,637	314,744
2027	0	310,678
2028	0	244,677
Thereafter	0	499,264
Total future lease payments	78,181	2,212,981
Less: present value discount	(8,669)	(195,597)
Total lease liabilities	69,512	2,017,384
Less: current portion	(25,752)	(406,021)
Long-term lease liability	<u>\$ 437,60</u>	<u>\$ 1,611,363</u>

10. Line of Credit

Habitat has a \$500,000 line of credit with Republic Bank & Trust Company which is renewable annually in July. The line is collateralized by substantially all the assets of the Organization and bears interest at a variable rate based on SOFR. The interest rate at June 30, 2023 was 8.25%. The balance of the line of credit at June 30, 2023 and 2022 was \$0. There was no interest paid or incurred during the years ending June 30, 2023 and 2022.

11. Net Assets

Net assets with donor restrictions are restricted for the following purposes or periods at June 30:

	<u>2023</u>	<u>2022</u>
Contributions restricted for specified purpose:		
Home builds	\$ 0	\$ 19,475
Pledges receivable with time restrictions	460,527	344,793
Grants receivable with time restrictions	100,000	0
	<u>\$ 560,527</u>	<u>\$ 364,268</u>

Net assets were released from restrictions by incurring expenses satisfying the restricted purpose or by occurrence of the passage of time or other events specified by donors as follows:

	<u>2023</u>	<u>2022</u>
Purpose restriction accomplished:		
Home builds	\$ 19,475	\$ 12,500
Time restrictions expired:		
Passage of specified time	125,000	21,550
Total net assets released from restrictions	<u>\$ 144,475</u>	<u>\$ 34,050</u>

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

12. Contributed Nonfinancial Assets

Habitat's contributed nonfinancial assets consisted of the following as of June 30:

	2023	2022	Usage
Property	\$ 43,750	\$ 7,510	Land for development
Furniture and home goods	3,300,474	3,485,430	ReStore inventory
Building supplies	140,589	185,061	Construction in progress
Total	<u>\$ 3,484,813</u>	<u>\$ 3,678,001</u>	

Valuation Techniques and Inputs:

Donated property, building supplies, and goods for resale at the ReStore are recorded as contributions at fair market value, using comparable prices for similar items in the Cincinnati, Ohio area, at the date of donation.

13. Fair Value Measurements

Accounting principles generally accepted in the United States of America define fair value, establish a framework for measuring fair value, and establish a fair value hierarchy that prioritizes the inputs to valuation techniques. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. A fair value measurement assumes that the transactions to sell the asset or transfer the liability occurs in the principal market for the asset or liability or, in the absence of a principal market, income or cost approaches are used to measure fair value.

The fair value hierarchy prioritizes the inputs to valuation techniques used to measure fair value into three broad levels:

- Level 1 - Observable inputs such as quoted prices in active markets;
- Level 2 - Inputs, other than the quoted prices in active markets, that are observable either directly or indirectly; and
- Level 3 - Unobservable inputs in which there is little or no market data, which require the reporting entity to develop its own assumptions.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

13. Fair Value Measurements (Continued)

The following are descriptions of the valuation methodologies used for assets measured at fair value on a recurring basis. There have been no changes from the prior year in the methodologies used at June 30, 2023. Significant transfers between fair value levels are determined at the end of the reporting period. There were no significant transfers during the years ended June 30, 2023 and 2022.

Financial assets whose fair value has been measured using level 1 inputs:

Money market accounts: Carrying value is equal to the fair value determined by quoted prices in active exchange markets.

Equity securities, fixed income securities, and mutual funds: Reference to quoted market prices, net asset values per share and other relevant information generated by market transactions.

Financial assets whose fair value has been measured using level 2 inputs:

Discounted non-interest bearing mortgage loans: The discount rate used to calculate the discount for all mortgages closed during a fiscal year is published annually by Habitat for Humanity International, Inc. It is based on an average of the low-income housing credit annual discount rate, Revenue Ruling 2009-16 section 42(b)(1), for buildings placed in service during the period.

Fair values of assets and liabilities measured on a recurring basis at June 30, 2023 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Equity securities	\$ 15,185	\$ 0	\$ 0	\$ 15,185
Fixed income securities	2,820,137	0	0	2,820,137
Mutual funds	5,113,070	0	0	5,113,070
Mortgage loans receivable	0	7,584,919	0	7,584,919
Less: discounts	0	(3,481,735)	0	(3,481,735)
Total assets at fair value	<u>\$ 7,948,392</u>	<u>\$ 4,103,184</u>	<u>\$ 0</u>	<u>\$ 12,051,576</u>

Fair values of assets and liabilities measured on a recurring basis at June 30, 2022 are as follows:

	<u>Level 1</u>	<u>Level 2</u>	<u>Level 3</u>	<u>Total</u>
Mortgage loans receivable	\$ 0	\$ 7,833,281	\$ 0	\$ 7,833,281
Less: discounts	0	(3,636,037)	0	(3,636,037)
Total assets at fair value	<u>\$ 0</u>	<u>\$ 4,197,244</u>	<u>\$ 0</u>	<u>\$ 4,197,244</u>

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

14. Contingencies

Financial awards from federal, state, and local governmental entities and private foundations in the form of grants are subject to compliance audits. Such audits could result in claims against Habitat for disallowed costs or noncompliance with grantor restrictions. No provision has been made for any liabilities that may arise from such audits since the amounts, if any, cannot be determined at this date.

15. Loan Pool Agreements

Beginning in 2014, Habitat entered into Loan Pool Agreements with several banks, collectively referred to as the Pool Fund Lenders. Through these agreements, Habitat sells homes to homeowners, whose mortgages are funded by contributions to the Loan Pool by the Pool Fund Lenders. The mortgages are owned by the Pool Fund Lenders and serviced by third parties. Contributions by the Pool Fund Lenders are repaid, with interest, from monthly payments received on the Partner Family Loans. Habitat receives cash at the closing of each sale at a discounted rate and pays regular and customary closing costs and fees associated with the sale.

Habitat is granted a promissory note and mortgage lien that is subordinate to the first mortgage as evidence of Habitat's interest in any remaining equity in the property.

Under the Loan Pool Agreements, Habitat is required to maintain a loss reserve fund to pay certain amounts, such as fees, loan default payments, or loan repurchases. Deposits to the loss reserve fund are made in an amount of no more than ten percent of the net proceeds received from each sale, up to a maximum aggregate balance of \$500,000. The balance of the loss reserve fund as of June 30, 2023 and 2022 was \$512,992 and \$471,304, respectively.

During the year ended June 30, 2023, Habitat sold 11 homes through Loan Pool Agreements. These mortgages were valued at \$1,567,951, with a discount of \$550,004. Habitat received \$1,017,947 for the sales.

During the year ended June 30, 2022, Habitat sold 14 homes through Loan Pool Agreements. These mortgages were valued at \$1,706,531, with a discount of \$588,169. Habitat received \$1,118,362 for the sales.

16. Transactions with Habitat for Humanity International, Inc.

Habitat annually remits a portion of its contributions (excluding in-kind contributions) to Habitat for Humanity International, Inc. (HFHI). These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2023 and 2022, Habitat contributed \$174,000 and \$919,000, respectively, to HFHI. This amount is included in program services expense in the statements of activities.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

17. Capital Lease Obligation

In January 2018, Habitat entered into a capital lease agreement for a box truck, requiring monthly payments of \$1,240, including interest at 9.977%. The leases are collateralized by the trucks. The final payments are due January 2023. The balance of the lease obligation at June 30, 2022 was \$8,429.

In December 2020, Habitat entered into a capital lease agreement for two box trucks, each requiring monthly payments of \$1,303, including interest at 8.85%. The lease is collateralized by the trucks. The final payment is due December 2025. The balance of the lease obligation at June 30, 2022 was \$92,066.

Amortization of leased assets is included with depreciation expense, and amounted to \$47,308 for the year ending June 30, 2022. The following is an analysis of capital lease property included in property and equipment at June 30, 2022:

Capitalized cost of vehicle	\$	241,368
Less: accumulated depreciation		(148,946)
	\$	<u>92,422</u>

18. Retirement Plan

Effective October 1, 2010, Habitat adopted a Savings Incentive Match Plan for Employees Individual Retirement Account (SIMPLE IRA) Plan under Section 408(p) of the Internal Revenue Code. Employees contribute to the SIMPLE IRA Plan through payroll deduction. For the years ended June 30, 2023 and 2022, Habitat contributed \$49,101 and \$45,052 to the SIMPLE IRA Plan, respectively.

19. Refundable Advance

In February 2021, Habitat received approval and funding for a loan under the Paycheck Protection Program (PPP) as provided for by the CARES Act. The loan was issued through Republic Bank & Trust Company in connection with the Small Business Administration (SBA) for a total of \$622,300. On August 16, 2021, Habitat received notice from Republic Bank & Trust Company that the SBA granted full forgiveness of the PPP loan and the loan was paid in full by the SBA on August 6, 2021. The forgiven loan amount is recorded as debt forgiveness income during the year ending June 30, 2022.

Habitat for Humanity of Greater Cincinnati

Notes to Financial Statements

June 30, 2023 and 2022

20. Restatement – Employee Retention Credit

During the current year, management determined that the Organization was eligible and qualified for the Employee Retention Credit (ERC). Consequently, certain amounts previously reported for receivables and grant revenue have been restated and an adjustment has been made to the opening balance of net assets without donor restrictions for the year-ended June 30, 2022.

At June 30, 2023 and 2022, Habitat had a receivable for the ERC totaling \$370,393 and \$775,798 recorded in other receivables on the statements of financial position. The related revenue was recognized as grant revenue on the statement of activities.

The credit resulted in a prior period adjustment as detailed in the table below for the year ended June 30, 2022:

	<u>As Originally Presented</u>	<u>Adjustment</u>	<u>Restated Balance</u>
Other receivables, net of allowance	\$ 107,984	\$ 775,798	\$ 883,782
Net assets without donor restrictions – beginning of year	\$ 11,274,172	\$ 405,405	\$ 11,679,577
Contributions and grants	\$ 10,779,646	\$ 370,393	\$ 11,150,039

21. Subsequent Events

Effective August 11, 2023, Habitat signed a lease for a new ReStore location in Loveland, Ohio. Future minimum rent payments on the new lease are not included in future minimum lease payments in Note 9.

In August 2023, Habitat received the remaining balance on the ERC receivable of \$370,393.

Management evaluated the activity of Habitat through November 30, 2023 (the date the financial statements were available to be issued) and concluded that no other subsequent events have occurred that would require recognition in the financial statements or disclosure in the notes to the financial statements.



In this ever-changing business environment, Flagel Huber Flagel goes beyond numbers and deadlines, returning the trust and confidence our clients place in us, with a caring partner relationship. We are committed to a collaborative search for ideas and solutions that help business organizations thrive and families build and preserve wealth. Our commitment is simple; financial and operational *insight*, service *integrity*, and problem solving *innovation*.

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