Habitat for Humanity
of Greater Cincinnati

Financial Statements

June 30, 2022 and 2021

FLAGEL HUBER FLAGEL

Certified Public Accountants | Business Advisors

Habitat for Humanity of Greater Cincinnati

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June 30, 2022 and 2021

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, 2022 and 2021, 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, 2022 and 2021, 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, 2021 Financial Statements

As discussed in Notes 2 and 20, Habitat adopted ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve transparency of contributed nonfinancial assets for nonprofit entities through enhancements to presentation and disclosure. The standard requires Habitat to present contributed nonfinancial assets as a separate line item in the statement of activities, apart from contributions of cash or other financial assets. Consequently, certain amounts previously reported in the statement of activities for in-kind contributions related to in-kind donations, ReStore inventory and ReStore cost of sales have been restated in the June 30, 2021 financial statements now presented, and an adjustment has been made to net assets without donor restrictions to apply this accounting standard. 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.

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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.

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Certified Public Accountants
Cincinnati, Ohio
November 29, 2022

Habitat for Humanity of Greater Cincinnati

Statements of Financial Position

June 30, 2022 and 2021

	2022	2021
Assets		
Current Assets		
Cash and cash equivalents	$ 11,589,366	$ 4,447,808
Loss reserve fund	471,304	384,402
Deposit - mortgage service provider ($264,288 and $279,844 held under agency in 2022 and 2021, respectively)	354,957	378,078
Deposits	11,000	13,000
Pledges receivable	125,000	37,930
Other receivables, net of allowance	107,984	84,271
Prepaid expenses	27,936	49,208
Building supply inventory	211,344	165,823
ReStore inventory	445,888	338,438
Construction in progress	839,702	1,033,363
Mortgage loans receivable, net of discount	501,806	478,272
Total Current Assets	14,686,287	7,410,593
Property and Equipment, at net book value	337,293	368,362
Other Assets		
Pledges receivable, net of discount	219,793	0
Homes available for sale	51,277	50,360
Land for development	865,360	897,407
Mortgage loans receivable, net of discount	3,695,438	4,280,457
Deposits	5,863	5,863
Total Other Assets	4,837,731	5,234,087
Total Assets	$ 19,861,311	$ 13,013,042

Habitat for Humanity of Greater Cincinnati

Statements of Financial Position (Continued)

June 30, 2022 and 2021

	2022	2021
Liabilities and Net Assets		
Current Liabilities		
Accounts payable	$ 298,977	$ 381,331
Accrued expenses	44,473	50,992
Accrued payroll	191,034	209,391
Agency liability	301,322	293,146
Refundable advance	0	622,300
Current portion of capital lease obligations	31,555	47,165
Total Current Liabilities	867,361	1,604,325
Long-Term Debt		
Capital lease obligations	68,940	100,495
Total Liabilities	936,301	1,704,820
Net Assets		
Without donor restrictions	18,560,742	11,274,172
With donor restrictions	364,268	34,050
Total Net Assets	18,925,010	11,308,222
Total Liabilities and Net Assets	$ 19,861,311	$ 13,013,042

Habitat for Humanity of Greater Cincinnati

Statement of Activities

For the Year Ended June 30, 2022

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions and grants	$ 10,779,646	$ 364,268	$ 11,143,914
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	21,073,590	330,218	21,403,808
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	13,787,020	0	13,787,020
Change in Net Assets	7,286,570	330,218	7,616,788
Net Assets – Beginning of Year	11,274,172	34,050	11,308,222
Net Assets – End of Year	$ 18,560,742	$ 364,268	$ 18,925,010

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, 2021

	Without Donor Restrictions	With Donor Restrictions	Total
Support and Revenue			
Contributions and grants	$ 2,408,844	$ 21,550	$ 2,430,394
In-kind contributions	3,366,400	0	3,366,400
Transfers to homeowners	954,823	0	954,823
Mortgage loan discount amortization	493,382	0	493,382
ReStore sales	3,612,695	0	3,612,695
Repair program	12,747	0	12,747
Recycling	7,290	0	7,290
Rebates	371,257	0	371,257
Miscellaneous revenue	696,823	0	696,823
Other gains and revenue	1,350,876	0	1,350,876
Net assets released from restrictions	234,686	(234,686)	0
Total Support and Revenue	13,509,823	(213,136)	13,296,687
Expenses			
Program services	10,793,861	0	10,793,861
Supporting services:			
Fundraising	403,333	0	403,333
Management and general	305,574	0	305,574
Total Expenses	11,502,768	0	11,502,768
Change in Net Assets	2,007,055	(213,136)	1,793,919
Net Assets – Beginning of Year	9,267,117	247,186	9,514,303
Net Assets – End of Year	$ 11,274,172	$ 34,050	$ 11,308,222

Habitat for Humanity of Greater Cincinnati

Statement of Functional Expenses

For the Year Ended June 30, 2022

	Program Services	Supporting Services: Fundraising	Supporting Services: Management and General	Total
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
	$ 12,925,403	$ 525,696	$ 335,921	$ 13,787,020

Habitat for Humanity of Greater Cincinnati

Statement of Functional Expenses

For the Year Ended June 30, 2021

		Supporting Services		
	Program Services	Fundraising	Management and General	Total
Salaries and benefits	$ 3,175,164	$ 286,860	$ 207,812	$ 3,669,836
Cost of homes transferred	1,477,196	0	0	1,477,196
Building services and supplies	223,869	0	0	223,869
Vehicles	110,479	124	414	111,017
Rent	444,565	0	1,980	446,545
Utilities	137,453	0	9,869	147,322
Publicity	51,955	48,090	0	100,045
Habitat International support	285,700	0	0	285,700
Professional fees	51,835	35,975	13,550	101,360
Insurance	59,297	0	39,531	98,828
Interest	4,960	0	4,960	9,920
Repair program	197,633	0	0	197,633
ReStore cost of sales	3,513,395	0	0	3,513,395
Travel and entertainment	4,971	93	0	5,064
Office and administration	337,277	29,105	14,704	381,086
Education	6,354	933	3,840	11,127
Volunteer support	10,293	0	0	10,293
Family selection and services	60,306	0	0	60,306
Other	8,411	95	6,856	15,362
Discounts on mortgages	553,226	0	0	553,226
Depreciation	79,522	2,058	2,058	83,638
	$ 10,793,861	$ 403,333	$ 305,574	$ 11,502,768

Habitat for Humanity of Greater Cincinnati

Statements of Cash Flows

For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Change in net assets	$ 7,616,788	$ 1,793,919
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Transfers to homeowners	(1,706,531)	(954,823)
Depreciation	87,085	83,638
Discount expense	588,271	553,226
Mortgage loan discount amortization	(399,131)	(493,382)
Gain on sale of mortgage loans	0	(1,212,382)
Gain on buyback of mortgage loans	0	(121,206)
Gain on disposal of fixed assets	(5,000)	0
Realized and unrealized (gain) or loss on investments	659	18
In-kind donations of land for development	(7,510)	0
In-kind donations of stock	(16,518)	(2,580)
In-kind donations of construction in progress	(46,890)	(52,277)
In-kind contribution of ReStore inventory, net	(107,450)	(22,438)
Refundable advance forgiven	(622,300)	(693,300)
Changes in assets and liabilities:		
Pledges receivable, net of discount	(306,863)	209,256
Other receivables, net of allowance	(23,713)	(7,818)
Prepaid expenses	21,272	(29,434)
Building supply inventory	(45,521)	(13,576)
Construction in progress	240,551	(206,256)
Homes available for sale	58,762	127,160
Land for development	39,557	23,107
Deposits	2,000	(5,000)
Accounts payable	(82,354)	231,293
Accrued expenses	(6,519)	18,617
Accrued payroll	(18,357)	46,198
Agency liability	8,176	(60,581)
Refundable advance	0	622,300
Net Cash Provided by (Used in) Operating Activities	$ 5,268,464	$ (166,321)

The accompanying notes are an integral part of these statements.

Habitat for Humanity of Greater Cincinnati

Statements of Cash Flows (Continued)

For the Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Investing Activities:		
Payments and credits on mortgage receivables	$ 900,937	$ 971,654
Purchase of property and equipment	(56,016)	(32,645)
Purchase of mortgage loan buybacks	0	(2,928,950)
Proceeds from sale of mortgage loans	1,118,260	4,463,043
Proceeds from sale of property and equipment	5,000	0
Proceeds from sale of investments	15,859	2,562
Net Cash Provided by Investing Activities	1,984,040	2,475,664
Cash Flows Used in Financing Activities:		
Payments on capital lease obligations	(47,165)	(48,964)
Change in Cash and Cash Equivalents and Restricted Cash	7,205,339	2,260,379
Cash and Cash Equivalents and Restricted Cash:		
Beginning of year	5,210,288	2,949,909
End of year	$ 12,415,627	$ 5,210,288
Supplemental Disclosures of Cash Flow Information:		
Non-cash investing and financing activities:		
Transfers to homeowners subject to non-interest bearing mortgage loans	$ 1,706,531	$ 954,823
Net transfers to homes available for sale from mortgage loans receivable	$ 59,679	$ 27,839
Refundable advance forgiven	$ 622,300	$ 693,300
Acquisition of property and equipment through assumption of capital lease obligations	$ 0	$ 123,468
Cash paid during the period for:		
Interest	$ 12,341	$ 9,920

The accompanying notes are an integral part of these statements.

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 $79 of money market funds at each year ended June 30, 2022 and 2021.

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:

	2022	2021
Cash and cash equivalents	$ 11,589,366	$ 4,447,808
Deposit – mortgage service provider	354,957	378,078
Loss reserve fund	471,304	384,402
	$ 12,415,627	$ 5,210,288

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, 2022 and 2021 was $354,957 and $378,078, respectively.

Habitat entered into a Loan Pool Agreement that requires a loss reserve fund, which is considered restricted cash. The loss reserve fund totaled $471,304 and $384,402 at June 30, 2022 and 2021, respectively. See Note 13.

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, 2022 and 2021 totaled $264,288 and $279,844, 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, 2022 and 2021 totaled $37,034 and $13,302, 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, 2022 and 2021. For the years ended June 30, 2022 and 2021, Habitat recorded no bad debt expense with respect to pledges receivable.

2. Summary of Significant Accounting Policies (Continued)

<u>Other Receivables</u>

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 $114,521 and $114,678 at June 30, 2022 and 2021, respectively. Due to the suspect collectability of these balances management has recorded an allowance for doubtful accounts of $6,537 and $30,407 at June 30, 2022 and 2021, respectively. For the years ended June 30, 2022 and 2021, Habitat recorded no bad debt expense with respect to other receivables.

<u>Building Supply Inventory</u>

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, 2022 and 2021.

<u>Construction in Progress</u>

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:

	Number	Costs
Homes under construction, July 1, 2020	20	$ 774,830
Additional costs incurred on beginning inventory		774,129
New homes started during the period	10	962,249
Homes transferred during the period	(10)	(1,477,845)
Homes under construction, July 1, 2021	20	1,033,363
Additional costs incurred on beginning inventory		897,181
New homes started during the year	17	1,515,379
Homes transferred during the year	(15)	(2,606,221)
Homes under construction, June 30, 2022	22	$ 839,702

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, 2022 and 2021. For the years ended June 30, 2022 and 2021, Habitat recorded no bad debt expense with respect to mortgage loans receivable.

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

During the year ended June 30, 2021, Habitat bought back forty-six previously sold mortgages for $2,632,599 and immediately sold those mortgages for $3,844,981, resulting in a gain on the sale of mortgages of $1,212,382. Habitat also purchased six additional previously sold mortgages which were recorded with a mortgage loan receivable in the amount of $417,557. Habitat paid $296,351 in cash to receive the mortgages back, resulting in a gain on purchase of mortgages in the amount of $121,206.

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, 2022 and 2021.

Homes Available for Sale

Homes available for sale consisted of 2 properties as of June 30, 2022 and 2021. 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 99 and 107 properties as of June 30, 2022 and 2021, respectively. Land for development is valued at purchased cost, or if donated, at the fair market value at the date of donation.

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 13) 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.

2. Summary of Significant Accounting Policies (Continued)

Revenue Recognition (Continued)
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.

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, 2022 and 2021, Board Members and staff contributed approximately $28,000 and $27,000 to Habitat, respectively. These amounts are included in contributions and grants on the statements of activities.

Donated Goods and Services
Habitat adopted new accounting guidance, ASU 2020-07, *Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*, to improve transparency of contributed nonfinancial assets for not-for-profit entities through enhancements to presentation and disclosure. The ASU requires Habitat to present contributed nonfinancial assets as a separate line item in the statements of activities, apart from contributions of cash or other financial assets. New disclosures are also required to disaggregate contributed nonfinancial assets by category type and other qualitative information about utilization, policies, and valuation techniques. The ASU is applicable for the Organization's fiscal year 2022 and has been retrospectively applied; see Note 20 for the effects on total net assets.

Advertising Costs
Advertising costs are charged to operations when incurred. Advertising expense for the years ended June 30, 2022 and 2021 was $110,650 and $100,045, respectively.

2. Summary of Significant Accounting Policies (Continued)

Warranty Costs
Warranty costs are charged to operations when incurred. Warranty expense for the years ended June 30, 2022 and 2021 was $29,067 and $36,610, 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 deprecation, are allocated on the basis of estimates of personnel time and a space utilization schedule.

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, 2022 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, 2022. The 2018 through 2020 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, 2022, reduced by amounts not available for general use because of contractual or donor-imposed restrictions within one year.

Cash and cash equivalents	$ 11,589,366
Deposit – mortgage service provider	354,957
Other receivables, net of allowance	107,984
Pledges receivable - current portion	125,000
Mortgage loans receivable, net of discount - current portion	501,806
Financial assets at June 30, 2022	12,679,113
Less those unavailable for general expenditures within one year, due to:	
Subject to satisfaction of donor restrictions	(219,793)
Agency liabilities	(264,288)
Financial assets available to meet cash needs for general expenditures within one year	$ 12,195,032

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.

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 4.75% discount rate. Pledges receivable are expected to be collected as follows subsequent to June 30, 2022:

Due by June 30, 2023	$ 125,000
Due by June 30, 2024	125,000
Due by June 30, 2025	125,000
TOTAL	375,000
Less: discounts to present value	(30,207)
	$ 344,793

5. Other Receivables

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

	2022	2021
Condominium association assessments paid for homeowners	$ 11,652	$ 12,542
Escrows paid for homeowners	73,665	96,861
Contractor receivable	29,204	4,800
Employee receivable	0	475
TOTAL	114,521	114,678
Less: allowance for doubtful accounts	(6,537)	(30,407)
	$ 107,984	$ 84,271

6. Mortgage Loans Receivable

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

	2022	2021
Consumer mortgage loans secured by real estate:		
Current	$ 4,841,234	$ 5,580,137
31 – 60 days past due	1,264,591	857,877
61 – 90 days past due	347,742	834,238
Greater than 90 days past due	1,379,714	1,562,607
TOTAL	7,833,281	8,834,859
Less: discounts to present value	(3,636,037)	(4,076,130)
	$ 4,197,244	$ 4,758,729

At June 30, 2022, three homes were in the foreclosure process with a discounted value of $125,326. During the years ended June 30, 2022 and 2021, no deeds were received in lieu of foreclosure.

7. Property and Equipment

Property and equipment consists of the following at June 30:

COST:	2022	2021	Estimated Useful Life in Years
Construction equipment	$ 109,819	$ 101,194	5 – 7
Office equipment	129,670	129,670	3 – 7
Computer equipment	85,300	85,300	3 – 7
Leasehold improvements	239,152	239,152	15
Vehicles	456,260	442,567	5
Warehouse buildings	48,968	48,968	30
Land	44,300	44,300	-
TOTAL	1,113,469	1,091,151	
Less: accumulated depreciation	(776,176)	(722,789)	
	$ 337,293	$ 368,362	

Depreciation expense was $87,085 and $83,638 for the years ended June 30, 2022 and 2021, respectively.

8. Line of Credit

Habitat has a $500,000 line of credit with Republic Bank & Trust Company. The balance of the line of credit at June 30, 2022 and 2021 was $0. There was no interest paid or incurred during the years ending June 30, 2022 and 2021. The maturity date of the line of credit is July 27, 2023.

9. Net Assets

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

	2022	2021
Contributions restricted for specified purpose:		
Home builds	$ 19,475	$ 12,500
Pledges receivable with time restrictions	344,793	21,550
	$ 364,268	$ 34,050

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:

	2022	2021
Purpose restriction accomplished:		
Home builds	$ 12,500	$ 0
Time restrictions expired:		
Passage of specified time	21,550	234,686
Total net assets released from restrictions	$ 34,050	$ 234,686

10. Noncash In-Kind Contributions

Habitat's in-kind contributions consisted of the following as of June 30:

	2022	2021	Usage
Property	$ 7,510	$ 0	Land for development
Furniture and home goods	3,485,430	3,258,272	ReStore inventory
Building supplies	185,061	108,128	Construction in progress
Total	$ 3,678,001	$ 3,366,400	

Valuation Techniques and Inputs:

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, 2022 and 2021, 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 is not meet the criteria defined above.

Donated property, building supplies, and goods for resale at the ReStore are recorded as contributions at fair market value, where objectively measurable, at the date of donation.

11. 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.

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, 2022. 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, 2022 and 2021.

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, 2022 are as follows:

	Level 1	Level 2	Level 3	Total
Receivables				
Mortgage loans	$ 0	$ 7,833,281	$ 0	$ 7,833,281
Less: discounts	0	(3,636,037)	0	(3,636,037)
	$ 0	$ 4,197,244	$ 0	$ 4,197,244

Fair values of assets and liabilities measured on a recurring basis at June 30, 2021 are as follows:

	Level 1	Level 2	Level 3	Total
Receivables				
Mortgage loans	$ 0	$ 8,834,859	$ 0	$ 8,834,859
Less: discounts	0	(4,076,130)	0	(4,076,130)
	$ 0	$ 4,758,729	$ 0	$ 4,758,729

12. 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.

13. 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, 2022 and 2021 was $471,304 and $384,402, respectively.

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.

During the year ended June 30, 2021, Habitat sold 10 homes through Loan Pool Agreements. These mortgages were valued at $954,823, with a discount of $337,422. Habitat received $618,062 for the sales.

14. 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, 2022 and 2021, Habitat contributed $919,000 and $285,700, respectively, to HFHI. This amount is included in program services expense in the statements of activities.

15. Capital Lease Obligation

In May 2017, Habitat entered into a capital lease agreement for a box truck, requiring monthly payments of $1,214, including interest at 9.39%. The lease was collateralized by the truck. The final payment was made in May 2022. The balance of the lease obligation at June 30, 2022 and 2021 was $0 and $12,747, respectively.

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 and 2021 was $8,429 and $21,909, respectively.

15. Capital Lease Obligation (Continued)

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 and 2021 was $92,066 and $113,044, respectively.

Amortization of leased assets is included with depreciation expense, and amounted to $47,308 and $46,988 for the years ending June 30, 2022 and 2021, respectively. The following is an analysis of capital lease property included in property and equipment at June 30:

	2022	**2021**
Capitalized cost of vehicle	$ 241,368	$ 241,368
Less: accumulated depreciation	(148,946)	(101,638)
	$ 92,422	$ 139,730

Future minimum lease payments succeeding June 30, 2022 for capital leases are as follows:

2023	$ 56,584
2024	35,430
2025	31,272
2026	15,636
	$ 138,922
Less amount representing interest	(38,427)
Total	$ 100,495

16. Lease Commitments

Habitat leases office and warehouse space throughout Ohio and Kentucky. The terms of the leases vary, with expirations through October 2027.

Rent expense under operating lease agreements for the years ended June 30, 2022 and 2021 was $452,554 and $446,545, respectively.

Future minimum lease payments succeeding June 30, 2022 are as follows:

2023	$ 409,633
2024	174,445
2025	102,000
2026	102,000
2027	102,000
Thereafter	34,000
	$ 924,078

17. 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, 2022 and 2021, Habitat contributed $45,052 and $44,633 to the SIMPLE IRA Plan, respectively.

18. Refundable Advance

In April 2020, 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 $693,300. On November 6, 2020, 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 November 2, 2020. The forgiven loan amount is recorded as debt forgiveness income during the year ending June 30, 2021.

In February 2021, Habitat received approval and funding for a second loan under the Paycheck Protection Program 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.

19. COVID Response

On January 30, 2020, the World Health Organization (“WHO”) announced a global health emergency because of a new strain of coronavirus (the “COVID-19 outbreak” or “COVID”) and the health risks to the international community. In March 2020, the WHO classified the COVID-19 outbreak as a pandemic, based on the rapid increase in exposure globally.

In addition to complying with local health mandates, management took appropriate actions to mitigate the spread of the virus by altering its protocols to minimize personal contact within its office. However, given the continuing evolution of the COVID-19 outbreak, Habitat is not able to fully estimate the effects of COVID-19 on its results of operations, financial condition, or liquidity for fiscal year 2023 or beyond. Management believes that adaptive changes in operations have been sufficient to protect Habitat from the near-term negative impact related to the COVID-19 outbreak through the date of this report.

20. Restatement – Noncash In-Kind Contributions

Habitat restated its opening net asset balances as of July 1, 2020 to properly comply with accounting standards related to contributed nonfinancial assets.

The change in accounting policy resulted in a prior period adjustment as detailed in the table below:

	Without Donor Restrictions	With Donor Restrictions	Total
Net Assets as of July 1, 2020 – as previously presented	$ 8,951,117	$ 247,186	$ 9,198,303
Increase in ReStore inventory related to in-kind contributions recognized	316,000	0	316,000
Net Assets as of July 1, 2020 – as restated	$ 9,267,117	$ 247,186	$ 9,514,303
Change in net assets for the year ending June 30, 2021 – as previously presented	$ 1,771,481	$ 0	$ 1,771,481
Increase in in-kind contributions related to donations of furniture and home goods	3,258,272	0	3,258,272
Increase in ReStore cost of sales	(3,235,834)	0	(3,235,834)
Change in net assets for the year ending June 30, 2021 – as restated	$ 1,793,919	$ 0	$ 1,793,919

21. Subsequent Events

Management evaluated the activity of Habitat through November 29, 2022 (the date the financial statements were available to be issued) and concluded that no 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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