

***HABITAT FOR HUMANITY OF EVANSVILLE, INC.
AND SUBSIDIARY***

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

(With Independent Auditor's Report Thereon)

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Habitat for Humanity of Evansville, Inc. and Subsidiary

Opinion

We have audited the accompanying consolidated financial statements of Habitat for Humanity of Evansville, Inc. and Subsidiary (a nonprofit organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, and the related consolidated statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the consolidated financial statements.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Evansville, Inc. and Subsidiary as of June 30, 2022 and 2021, and the changes in their net assets and their 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 for Humanity of Evansville, Inc. and Subsidiary (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.

Responsibility of Management for the Financial Statements

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

In preparing the consolidated 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 consolidated financial statements are available to be issued.

Auditor's Responsibility for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 consolidated 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 consolidated 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 consolidated 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.

Riney Hancock CPA3 PSC

Evansville, Indiana
October 4, 2022

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 1,885,584	\$ 1,995,055
Certificates of deposit	1,274,348	1,260,686
Promises to give, current	40,225	251,098
Houses available for sale	-	136,705
Construction in process	1,052,922	1,942,354
Land held for development	505,941	680,511
Mortgages receivable, net	811,690	737,544
Other current assets	79,993	85,477
Total current assets	5,650,703	7,089,430
Other assets:		
Cash restricted for joint venture expenses	24,322	34,747
Mortgages receivable, net	5,068,946	4,411,135
Investment in joint venture	932,232	942,012
Promises to give, net	21,231	118,843
Beneficial interest in assets held by others	90,824	68,466
Property and equipment, net	113,993	128,948
Total other assets	6,251,548	5,704,151
Total assets	\$ 11,902,251	\$ 12,793,581
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	\$ 139,565	\$ 72,637
Accrued expenses	44,020	61,270
Deferred revenue	69,501	71,401
Other current liabilities	16,570	6,370
Total current liabilities	269,656	211,678
Long-term debt	1,382,296	1,379,601
Total liabilities	1,651,952	1,591,279
Net assets:		
Without donor restrictions	10,098,019	10,760,741
With donor restrictions	152,280	441,561
Total net assets	10,250,299	11,202,302
Total liabilities and net assets	\$ 11,902,251	\$ 12,793,581

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended June 30, 2022 and 2021

	2022			2021		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Contributions and grants	\$ 2,283,567	\$ 22,358	\$ 2,305,925	\$ 2,809,732	\$ 324,871	\$ 3,134,603
Sales of homes	2,611,367	-	2,611,367	1,079,868	-	1,079,868
Mortgage discount amortization	510,625	-	510,625	510,795	-	510,795
ReStore income, net	371,534	-	371,534	433,982	-	433,982
PPP loan forgiveness	-	-	-	145,762	-	145,762
In-kind contributions	31,295	-	31,295	119,143	-	119,143
Investment income	18,860	-	18,860	19,679	-	19,679
Other income	53,228	-	53,228	26,751	-	26,751
Change in beneficial interest in assets held by others	-	-	-	-	12,612	12,612
Net assets released from restrictions	311,639	(311,639)	-	276,879	(276,879)	-
Total revenue and other support	6,192,115	(289,281)	5,902,834	5,422,591	60,604	5,483,195
Expenses:						
Program services:						
Home building	5,669,320	-	5,669,320	2,368,153	-	2,368,153
Restore	331,626	-	331,626	345,802	-	345,802
Other program costs	347,766	-	347,766	350,566	-	350,566
	6,348,712	-	6,348,712	3,064,521	-	3,064,521
Supporting services:						
General and administrative	253,799	-	253,799	204,831	-	204,831
Fundraising	252,326	-	252,326	302,170	-	302,170
	506,125	-	506,125	507,001	-	507,001
Total expenses	6,854,837	-	6,854,837	3,571,522	-	3,571,522
Change in net assets	(662,722)	(289,281)	(952,003)	1,851,069	60,604	1,911,673
Net assets, beginning of year	10,760,741	441,561	11,202,302	8,909,672	380,957	9,290,629
Net assets, end of year	<u>\$ 10,098,019</u>	<u>\$ 152,280</u>	<u>\$ 10,250,299</u>	<u>\$ 10,760,741</u>	<u>\$ 441,561</u>	<u>\$ 11,202,302</u>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2022 and 2021

	2022						
	Program Services				Supporting Services		
	Home Building	ReStore	Family Services & Other	Total	General & Admin.	Fund-raising	Total
Cost of homes sold	\$ 3,984,791	\$ -	\$ -	\$ 3,984,791	\$ -	\$ -	\$ 3,984,791
Mortgage discount	1,355,362	-	-	1,355,362	-	-	1,355,362
Salaries & related costs	191,558	183,136	222,262	596,956	133,559	172,543	903,058
Advertising	-	26,383	-	26,383	-	11,827	38,210
Community projects	-	-	1,900	1,900	-	-	1,900
Credit reports	4,489	-	-	4,489	13,787	-	18,276
Depreciation	-	10,710	7,579	18,289	7,249	-	25,538
Insurance	9,653	9,430	-	19,083	3,715	-	22,798
Interest	12,475	-	-	12,475	-	-	12,475
Miscellaneous	-	747	10,043	10,790	5,693	14,398	30,881
Office	4,023	-	9,617	13,640	23,866	-	37,506
Printing & postage	-	-	17,529	17,529	622	37,710	55,861
Professional fees	10,425	-	39,170	49,595	17,172	900	67,667
Rent	21,600	72,399	10,074	104,073	10,560	-	114,633
Repairs & maintenance	7,734	7,941	-	15,675	-	-	15,675
Special events	-	-	-	-	-	14,419	14,419
Supplies	-	-	6,652	6,652	-	-	6,652
Telephone & utilities	4,283	16,408	8,102	28,793	18,893	-	47,686
Tithe & contributions	58,800	-	-	58,800	-	-	58,800
Travel & education	4,127	4,472	1,355	9,954	15,853	529	26,336
Volunteer	-	-	13,483	13,483	2,830	-	16,313
	<u>\$ 5,669,320</u>	<u>\$ 331,626</u>	<u>\$ 347,766</u>	<u>\$ 6,348,712</u>	<u>\$ 253,799</u>	<u>\$ 252,326</u>	<u>\$ 6,854,837</u>

	2021						
	Program Services				Supporting Services		
	Home Building	ReStore	Family Services & Other	Total	General & Admin.	Fund-raising	Total
Cost of homes sold	\$ 1,471,970	\$ -	\$ -	\$ 1,471,970	\$ -	\$ -	\$ 1,471,970
Mortgage discount	555,835	-	-	555,835	-	-	555,835
Salaries & related costs	209,960	187,162	144,612	541,734	98,252	216,703	856,689
Advertising	-	22,753	-	22,753	-	9,564	32,317
Community projects	-	-	81,599	81,599	-	-	81,599
Credit reports	5,765	-	-	5,765	11,239	-	17,004
Depreciation	-	11,408	8,866	20,274	8,063	-	28,337
Insurance	5,918	8,322	-	14,240	5,200	-	19,440
Interest	12,475	-	-	12,475	-	-	12,475
Miscellaneous	-	712	14,369	15,081	3,493	6,133	24,707
Office	4,914	-	12,665	17,579	26,365	-	43,944
Printing & postage	-	-	12,741	12,741	1,585	50,956	65,282
Professional fees	10,425	-	32,101	42,526	15,978	14,355	72,859
Rent	21,600	90,794	10,800	123,194	11,206	-	134,400
Repairs & maintenance	3,880	6,809	-	10,689	-	-	10,689
Special events	-	-	-	-	-	4,123	4,123
Supplies	-	-	13,880	13,880	-	0	13,880
Telephone & utilities	4,227	13,524	9,198	26,949	16,411	-	43,360
Tithe & contributions	58,800	-	-	58,800	-	-	58,800
Travel & education	2,384	4,318	318	7,020	4,949	336	12,305
Volunteer	-	-	9,417	9,417	2,090	-	11,507
	<u>\$ 2,368,153</u>	<u>\$ 345,802</u>	<u>\$ 350,566</u>	<u>\$ 3,064,521</u>	<u>\$ 204,831</u>	<u>\$ 302,170</u>	<u>\$ 3,571,522</u>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (952,003)	\$ 1,911,673
Adjustments to reconcile change in net assets to net cash from (used for) operating activities:		
Depreciation and amortization	28,233	31,032
Origination of mortgages	(2,519,214)	(1,021,756)
Mortgage discount	1,355,362	555,835
Mortgage discount amortization	(510,625)	(510,795)
Donated property and equipment	-	(89,000)
Change in beneficial interest in assets held by others	-	(12,612)
Decrease (increase) in assets:		
Houses available for sale	136,705	(94,099)
Construction in process	889,432	(1,106,401)
Land held for development	174,570	23,315
Promises to give	308,485	(39,208)
Other current assets	5,484	12,148
Increase (decrease) in liabilities:		
Accounts payable	66,928	52,608
Accrued expenses	(17,250)	5,507
Deferred revenue	(1,900)	(74,361)
Other current liabilities	10,200	(9,440)
	<u>(1,025,593)</u>	<u>(365,554)</u>
Net cash from (used for) operating activities		
Cash flows from investing activities:		
Principal collected on mortgages	942,520	918,601
Purchases of property and equipment	(10,583)	(13,435)
Net sales (purchases) of certificates of deposit	(13,662)	195,308
Distribution from joint venture investment	9,780	9,779
Transfer to beneficial interest in assets held by others	(22,358)	(2,350)
	<u>905,697</u>	<u>1,107,903</u>
Net cash from (used for) investing activities		
Net change in cash, cash equivalents, and restricted cash	(119,896)	742,349
Cash, cash equivalents, and restricted cash:		
Beginning of year	<u>2,029,802</u>	<u>1,287,453</u>
End of year	<u>\$ 1,909,906</u>	<u>\$ 2,029,802</u>
Cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	\$ 1,885,584	\$ 1,995,055
Cash restricted for joint venture expenses	<u>24,322</u>	<u>34,747</u>
Total cash, cash equivalents, and restricted cash	<u>\$ 1,909,906</u>	<u>\$ 2,029,802</u>
Supplemental disclosure of cash flow information:		
Interest paid	<u>\$ 9,780</u>	<u>\$ 9,780</u>

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

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

Nature of Organization

Habitat for Humanity of Evansville, Inc. (HFHE) is an Indiana not-for-profit organization founded in 1984 whose mission is to build safe, decent and affordable houses with low-income families in partnership with God's people in need in Vanderburgh and Posey counties in Indiana. HFHE is an affiliate of Habitat for Humanity International, Inc. (HFHI), a Christian not-for-profit organization that seeks to eliminate poverty housing from the world and to make decent shelter a matter of conscience and action. Although HFHI assists with information resources, training, publications, prayer support, and in other ways, HFHE is primarily and directly responsible for its own operations.

HFHE builds houses utilizing volunteer labor and donated materials, in addition to paid services and materials. The houses are sold to qualified homebuyers at no profit with non-interest-bearing mortgages. Prospective homeowners must have a need for housing, the ability to pay the mortgage, and are required to participate in the construction of homes.

Habitat for Humanity of Evansville ReStore LLC (ReStore) is an Indiana limited liability company formed in 2017 that is a wholly owned subsidiary of Habitat for Humanity of Evansville, Inc. ReStore operates a home improvement store in Evansville, Indiana that sells new and used home furnishings, building materials, and home improvement materials to the general public. Donations to the ReStore are made by contractors and other businesses, organizations, and individuals that have surplus or discontinued merchandise. The purpose of the ReStore is to raise funds to support HFHE programs.

Consolidated Financial Statements

The consolidated financial statements include the accounts of Habitat for Humanity of Evansville, Inc. and Habitat for Humanity of Evansville ReStore LLC. Such entities are collectively referred to as "Habitat" in the consolidated financial statements. All material inter-organization transactions have been eliminated.

Cash, Cash Equivalents, and Restricted Cash

Habitat considers all cash and highly liquid financial instruments with original maturities of three months or less, which are neither held for nor restricted by donors for long-term purposes, to be cash and cash equivalents. Cash and highly liquid financial instruments restricted to long-term purposes are excluded from this definition. Restricted cash represents cash received as a result of the New Market Tax Credit Program and will be used to pay future program expenses.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

1. **Organization and Summary of Significant Accounting Policies, Continued**

Houses Available for Sale and Land Held for Development

Houses available for sale represent the cost of homes that Habitat has received from a qualifying family due to foreclosure on the mortgage.

Land held for development is stated at cost and includes land under development, developed lots, and capitalized property taxes and other costs incurred for development. Donated land is recorded as a contribution at the estimated value at the date of receipt. If donors stipulate a time period during which the land must be used, the contributions are recorded as support with donor restrictions. In the absence of such stipulations, contributions of land are recorded as support without donor restrictions.

Real estate assets are evaluated for impairment if impairment indicators are present. An impairment write-down to fair value less costs to sell occurs when management believes that events or changes in circumstances indicate that its carrying amount may not be recoverable.

Construction In Process

Costs incurred in conjunction with home construction are capitalized as construction in process. Habitat does not generally write down the value of construction-in-process to estimated sales value, because any excess cost over sales value is a component of program services. Capitalized construction costs are expensed when ownership transfers to the homeowners. Any post-settlement costs are expensed as incurred.

Promises to Give

Unconditional promises to give are recognized as revenues in the period received, net of an allowance for uncollectible amounts. Management utilizes the allowance method of accounting for uncollectible promises to give, based on historical collection experience and current economic conditions. Promises to give are recorded at net realizable value. Promises to give expected to be collected in more than one year are discounted to the present value of future cash flows using a 2.86% discount rate.

Mortgages Receivable and Allowance

Mortgages arise in connection with Habitat's home building initiatives. They are non-interest-bearing, secured by the home sold, and payable in monthly installments over the life of the mortgage, which is usually 25 to 30 years. Mortgages are discounted based on prevailing market rates for low-income housing at the inception of mortgages, as provided by Habitat for Humanity International, Inc., and range from 7.23% to 8.48%. Discounts are amortized using the straight-line method over the term of the mortgages.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

1. **Organization and Summary of Significant Accounting Policies, Continued**

Mortgages Receivable and Allowance, Continued

Management believes that losses resulting from non-payment of mortgages receivable, given its collateral value and discount, are not likely. Accordingly, Habitat has not recorded an allowance for mortgage notes receivable losses. Homeowners whose mortgages are more than 60 days past due, who have not made satisfactory payment arrangements, and who have not attended required counseling sessions, may be subject to foreclosure proceedings.

Investment in Joint Venture

Habitat invested in joint ventures to take advantage of New Market Tax Credit (NMTC) financing. Habitat's investment in joint ventures is accounted for on the cost basis method since the Organization does not have significant influence over the joint venture. Distributions received are reported as a return of the investment. Management has not identified any events or changes in circumstances that might have an adverse effect on value of the investment.

Property and Equipment

Property and equipment additions over \$500 are recorded at cost, or if donated, at fair value on the date of the donation. Depreciation is provided on a straight-line basis over the estimated useful lives of the assets. If donors stipulate a time period during which the assets must be used, the contributions are recorded as support with donor restrictions. In the absence of such stipulations, contributions of property and equipment are recorded as support without donor restrictions.

Debt Issuance Costs

Unamortized costs related to the issuance of long-term debt are amortized to interest expense over the term of the debt using the straight-line method. The unamortized amount is presented in the consolidated statement of financial position as a reduction of the debt.

Net Assets

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

Net assets without donor restrictions: Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions. All contributions are considered available for Habitat's general programs unless specifically restricted by the donor.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

1. **Organization and Summary of Significant Accounting Policies, Continued**

Net Assets, Continued

Net assets with donor restrictions: Net assets subject to donor (or certain grantor) 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. Gifts of long-lived assets and gifts of cash restricted for the acquisition of long-lived assets are recognized as restricted revenue when received and released from restrictions when the assets are placed in service.

Revenue Recognition

Homes are sold to buyers that meet Habitat's qualification guidelines. The resulting mortgages are non-interest bearing and have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. Sales to homeowners in the statement of activities and changes in net assets are presented net of the applicable discount. Habitat recognizes the income from sales to homeowners when the title transfers to the homeowner upon closing.

ReStore revenue is recognized at the point of sale, net of discounts and expected returns. Historically, sales returns have not been significant. Sales taxes collected from customers are excluded from revenue. Revenue reported from the ReStores includes cash receipts plus the fair market value of donated goods sold, net of the cost of inventory sold.

Habitat recognizes special event revenue equal to the fair value of the direct benefits to donors and contribution revenue for the difference when the event takes place.

Contributions

Contributions are recognized when cash, securities or other assets, or an unconditional promise to give is received. Conditional promises to give, that is, those with a measurable performance or other barrier, and a right of return, are not recognized until the conditions on which they depend have been substantially met.

Contributions restricted by donors are reported as increases in net assets without donor restrictions if the restrictions expire (that is, when a stipulated time restriction ends or purpose restriction is accomplished) in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions, depending on the nature of the restrictions. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as net assets released from restrictions.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies, Continued

In-Kind Contributions

Habitat received in-kind contributions as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Construction materials	\$ 12,320	\$ 28,753
Professional construction services	17,725	1,390
Program materials	1,250	-
Equipment	-	4,000
Land	-	85,000
	<u>\$ 31,295</u>	<u>\$ 119,143</u>

In addition, a substantial number of volunteers contribute significant amounts of time to Habitat's program and supporting services. However, the financial statements do not reflect the value of these contributed services because they do not require a specialized skill.

Habitat's policy related to in-kind contributions is to utilize the assets given to carry out the mission of the Organization. If an asset is provided that does not allow Habitat to utilize it in its normal course of business, the asset will be sold at its fair market value as determined by appraisal or specialist depending on the type of asset.

All in-kind contributions received by Habitat for the years ended June 30, 2022 and 2021 were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

Advertising

Advertising costs are expensed as incurred.

Income Taxes

Habitat is exempt from income taxes as a nonprofit corporation under Section 501(c)(3) of the Internal Revenue Code, except on net income derived from unrelated business activities. The income derived from ReStore sales is exempt from unrelated business income tax because substantially all sales consist of merchandise that Habitat received as contributions. Habitat believes that it has support for any tax positions taken, and as such, does not have any uncertain tax positions that are material to the consolidated financial statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

1. Organization and Summary of Significant Accounting Policies, Continued

Functional Allocation of Expenses

The costs of providing various services and activities have been summarized on a functional basis in the consolidated statement of activities. Accordingly, certain costs have been allocated among the programs and supporting services benefited. The expenses that are allocated include occupancy costs, which are allocated on a square footage basis, and salaries and related costs, which are allocated on the basis of estimates of time and effort.

Estimates

The preparation of consolidated financial statements in accordance with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

New Accounting Standards Adopted During the Year

During the year ended June 30, 2022, Habitat adopted the provisions of ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. ASU 2020-07 improves transparency in the reporting of contributed nonfinancial assets through enhancements to presentation and disclosure. The adoption of this ASU had no significant impact on Habitat other than increased disclosures.

2. Liquidity and Availability of Financial Assets

Financial assets available within one year of the consolidated statement of financial position date to meet cash needs for general operating expenditures were as follows at June 30:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 1,816,083	\$ 1,920,500
Certificates of deposit	1,274,348	1,260,686
Promises to give	40,225	-
Mortgages receivable	<u>811,690</u>	<u>737,544</u>
	<u>\$ 3,942,346</u>	<u>\$ 3,918,730</u>

Habitat's goal is generally to maintain financial assets to meet at least 90 days of operating expenses. As part of its liquidity plan, Habitat invests cash in excess of daily requirements in short-term investments.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

3. Promises to Give

Promises to give consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 40,225	\$ 251,098
Receivable in one to five years	<u>22,781</u>	<u>125,761</u>
Total promises to give	63,006	376,859
Less discount to net present value	<u>(1,550)</u>	<u>(6,918)</u>
Promises to give, net	<u>\$ 61,456</u>	<u>\$ 369,941</u>

4. Mortgages Receivable

Mortgages receivable consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Mortgages receivable – current	\$ 811,690	\$ 737,544
Mortgages receivable – long-term	<u>12,154,628</u>	<u>10,652,079</u>
Total mortgages receivable	12,966,318	11,389,623
Less discount to net present value	<u>(7,085,682)</u>	<u>(6,240,944)</u>
Mortgages receivable, net	<u>\$ 5,880,636</u>	<u>\$ 5,148,679</u>

5. Investment in Joint Venture

In 2017, Habitat participated in a New Market Tax Credit (NMTC) program that provides tax credits over a seven-year period to eligible investors for making a qualified low-income community investment. Program compliance requirements include creation of a promissory note and investment in a qualified community development entity (CDE). As a part of the NMTC, Habitat invested \$977,844 in a joint venture, HFHI NMTC Leverage Lender 2016-1, LLC, for a 10.5% ownership interest and secured a 30-year loan in the amount of \$1,450,557 payable to an affiliate of the joint venture (see Note 8). The loan proceeds are to be used solely for the purpose of constructing qualified homes to low-income residents. Remaining investment in the joint venture was \$932,232 and \$942,012 at June 30, 2022 and 2021, respectively.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

6. Beneficial Interest in Assets Held by Others and Fair Value

Habitat contributed donor-restricted funds to the Community Foundation Alliance (CFA) and specified itself as the beneficiary. CFA was granted variance power to modify any restriction or condition of the distribution of the funds for any specified charitable purposes or to specified organizations if such restriction becomes unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community and area served. Income from these funds is distributed to Habitat for unrestricted purposes and the principal must remain intact for perpetuity. The historical cost of the beneficial interest was \$73,023 and \$50,665 at June 30, 2022 and 2021, respectively.

The fair value of the beneficial interest in assets held by others is measured on a recurring basis using the unadjusted fair value of the assets held in the fund as reported by CFA. Habitat considers the measurement to be a Level 3 input (based on significant unobservable inputs) because Habitat will never receive those assets or have the ability to direct CFA to redeem them.

The table below presents information about the fair value measurements of the beneficial interest in assets held by others for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Beginning of year	\$ 68,466	\$ 53,504
Contributions transferred to CFA	22,358	2,350
Total gains recognized in the change in net assets with donor restrictions	<u>-</u>	<u>12,612</u>
End of year	<u>\$ 90,824</u>	<u>\$ 68,466</u>

7. Property and Equipment

Property and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Equipment	\$ 172,975	\$ 165,392
Vehicles	77,862	74,862
Leasehold improvements	<u>78,850</u>	<u>78,850</u>
	329,687	319,104
Accumulated depreciation	<u>(215,694)</u>	<u>(190,156)</u>
Property and equipment, net	<u>\$ 113,993</u>	<u>\$ 128,948</u>

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

8. Long-Term Debt

Long term debt at June 30, 2022 and 2021 consisted of a \$1,450,557 note payable to HFHI NMTC Sub-CDE II, LLC, an affiliate of the joint venture discussed in Note 5, in conjunction with Habitat's participation in NMTC. This note requires interest only payments until November 2024 at 0.674252% and matures November 2047. The loan is secured by substantially all the assets acquired by Habitat from the project loan proceeds. The loan has a put option exercisable in November 2024 that will enable the joint venture to become owner of the affiliate, which will effectively extinguish Habitat's ownership in the joint venture and the outstanding debt owed to the affiliate. Unamortized debt issuance costs were \$68,261 and \$70,956 at June 30, 2022 and 2021, respectively.

9. PPP Loan

In April 2020, Habitat received a \$145,762 loan pursuant to the Paycheck Protection Program created as part of the relief efforts related to COVID-19 and administered by the Small Business Administration. The loan was subject to 100% forgiveness to the extent that the loan proceeds were used to pay permitted expenses. Habitat accounted for the loan under FASB ASC 958-605. In January 2021, Habitat received full forgiveness on the loan and reported the loan as contribution revenue for the year ended June 30, 2021.

10. Net Assets with Donor Restrictions

Net assets with donor restrictions consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Subject to expenditure for specific purpose:		
Building of homes	\$ 61,456	\$ 369,941
Learning center	-	3,154
Net assets to be maintained in perpetuity:		
Beneficial interest in assets held by others	<u>90,824</u>	<u>68,466</u>
	<u>\$ 152,280</u>	<u>\$ 441,561</u>

Net assets released from restrictions were as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Satisfaction of purpose restrictions:		
Building of homes	\$ 308,485	\$ 272,673
Learning center	<u>3,154</u>	<u>4,206</u>
	<u>\$ 311,639</u>	<u>\$ 276,879</u>

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

11. Leases

Habitat leases office and warehouse space under cancelable and noncancelable operating lease agreements which expire at various dates through March 2027. These leases generally contain renewal options for periods ranging from three to five years and require Habitat to pay all executory costs such as taxes, maintenance, and insurance. Total rent expense was \$114,633 and \$134,400 for the years ended June 30, 2022 and 2021, respectively.

Future minimum lease payments under noncancelable operating leases are as follows for the year ended June 30:

2023	\$	46,900
2024		46,900
2025		46,900
2026		46,900
2027		<u>31,267</u>
	\$	<u>218,867</u>

12. Retirement Plan

Habitat maintains a Simple IRA defined contribution plan covering substantially all of its employees. Habitat matches employee contributions up to 3% of eligible wages. Plan contributions were \$24,280 and \$23,063 for the years ended June 30, 2022 and 2021, respectively.

13. Transactions with Affiliate

Habitat remits a portion of its contributions to HFHI annually. These funds are used to construct homes in economically depressed areas around the world. Habitat contributed \$51,300 and \$51,300 to HFHI for the years ended June 30, 2022 and 2021, respectively. In addition, Habitat paid HFHI \$7,500 for operational support for each of the years ended June 30, 2022 and 2021.

14. Contingencies

Habitat is a defendant in a legal action regarding their alleged involvement in a wrongful death claim arising from a motor vehicle accident. Habitat believes it has meritorious defenses and intends to vigorously contest any such claims or litigation. Habitat believes that resolution of this suit will not have a material adverse effect on its financial position.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2022 and 2021

15. Risks and Uncertainties

Financial instruments that potentially subject Habitat to credit risk consist principally of cash on deposit at financial institutions, promises to give, and mortgages receivable. Cash in banks may, at times, exceed federal deposit insurance limits. Habitat attempts to minimize this risk by using high-credit quality financial institutions. Promises to give, which represent unsecured support, are periodically reviewed by management for their collectability and an allowance for doubtful accounts is established, as deemed necessary. Mortgages receivable are secured by the property purchased.

16. New Accounting Standards Not Yet Adopted

In June 2016, the FASB issued ASU 2016-13, *Financial Instruments-Credit Losses*. The standard requires a financial asset (including trade and finance receivables) measured at amortized cost basis to be presented at the net amount expected to be collected. Thus, the statement of activities will reflect the measurement of credit losses for newly-recognized financial assets as well as the expected increases or decreases of expected credit losses that have taken place during the period. This standard is effective for the fiscal beginning after December 15, 2022.

In February 2016, FASB issued ASU 2016-02, *Leases (Topic 842)*. Under ASU 2016-02, a lessee will recognize in the statement of financial position a liability to make lease payments and a right-to-use asset representing its right to use the underlying asset for the lease term for all leases with a lease term of more than 12 months. The amendments of this ASU are effective for reporting periods beginning after December 15, 2021.

Management is currently assessing the impact the adoption of these ASUs will have on its consolidated financial statements.

17. Subsequent Events

Habitat has evaluated subsequent events through October 4, 2022, the date the consolidated financial statements were available to be issued.