HABITAT FOR HUMANITY OF EVANSVILLE, INC.
AND SUBSIDIARY

CONSOLIDATED FINANCIAL STATEMENTS

Years Ended June 30, 2023 and 2022

(With Independent Auditor's Report Thereon)

C O N T E N T S

	Pages
Independent Auditor's Report	1-2
Consolidated Financial Statements:	
Consolidated Statements of Financial Position	3
Consolidated Statements of Activities	4
Consolidated Statements of Functional Expenses	5
Consolidated Statements of Cash Flows	6
Notes to Consolidated Financial Statements	7 - 21

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, 2023 and 2022, 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, 2023 and 2022, 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.

Change in Accounting Principle

As discussed in Note 1 to the consolidated financial statements, in effective July 1, 2022, the entity adopted new accounting guidance for leases under FASB ASC 842. Our opinion is not modified with respect to this matter.

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.

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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 CPAs PSC

Evansville, Indiana
October 3, 2023

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

June 30, 2023 and 2022

	2023	2022
ASSETS		
Current assets:		
Cash and cash equivalents	$ 1,850,007	$ 1,885,584
Certificates of deposit	1,061,662	1,274,348
Promises to give, current	21,961	40,225
Houses available for sale	70,634	-
Construction in process	1,277,503	1,052,922
Land held for development	617,544	505,941
Mortgages receivable, net	881,739	811,690
Operating lease right-to-use assets, current	95,216	-
Other current assets	101,247	79,993
Total current assets	5,977,513	5,650,703
Other assets:		
Cash restricted for joint venture expenses	13,897	24,322
Mortgages receivable, net	5,460,791	5,068,946
Investment in joint venture	922,452	932,232
Promises to give, net	-	21,231
Beneficial interest in assets held by others	78,655	90,824
Investments restricted for endowment	32,280	-
Operating lease right-to-use assets	452,708	-
Property and equipment, net	100,167	113,993
Total other assets	7,060,950	6,251,548
Total assets	$ 13,038,463	$ 11,902,251
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable	$ 100,715	$ 139,565
Accrued expenses	83,991	44,020
Deferred revenue	34,911	69,501
Operating lease liabilities, current	95,216	-
Other current liabilities	24,220	16,570
Total current liabilities	339,053	269,656
Operating lease liabilities	452,708	-
Long-term debt	1,384,991	1,382,296
Total liabilities	2,176,752	1,651,952
Net assets:		
Without donor restrictions	10,458,815	10,098,019
With donor restrictions	402,896	152,280
Total net assets	10,861,711	10,250,299
Total liabilities and net assets	$ 13,038,463	$ 11,902,251

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF ACTIVITIES

Years Ended June 30, 2023 and 2022

	2023			2022		
	Without Donor Restrictions	With Donor Restrictions	Total	Without Donor Restrictions	With Donor Restrictions	Total
Revenue and Support:						
Contributions and grants	$ 3,000,218	$ 301,757	$ 3,301,975	$ 2,283,567	$ 22,358	$ 2,305,925
Sales of homes	2,364,077	-	2,364,077	2,611,367	-	2,611,367
Mortgage discount amortization	599,754	-	599,754	510,625	-	510,625
ReStore income, net	529,212	-	529,212	371,534	-	371,534
In-kind contributions	43,288	-	43,288	31,295	-	31,295
Investment income	32,905	523	33,428	18,860	-	18,860
Other income	22,070	-	22,070	53,228	-	53,228
Change in beneficial interest in assets held by others	-	(12,169)	(12,169)	-	-	-
Net assets released from restrictions	39,495	(39,495)	-	311,639	(311,639)	-
Total revenue and other support	6,631,019	250,616	6,881,635	6,192,115	(289,281)	5,902,834
Expenses:						
Program services:						
Home building	4,752,120	-	4,752,120	5,669,320	-	5,669,320
Restore	400,534	-	400,534	331,626	-	331,626
Other program costs	483,007	-	483,007	347,766	-	347,766
	5,635,661	-	5,635,661	6,348,712	-	6,348,712
Supporting services:						
General and administrative	285,549	-	285,549	253,799	-	253,799
Fundraising	349,013	-	349,013	252,326	-	252,326
	634,562	-	634,562	506,125	-	506,125
Total expenses	6,270,223	-	6,270,223	6,854,837	-	6,854,837
Change in net assets	360,796	250,616	611,412	(662,722)	(289,281)	(952,003)
Net assets, beginning of year	10,098,019	152,280	10,250,299	10,760,741	441,561	11,202,302
Net assets, end of year	$ 10,458,815	$ 402,896	$ 10,861,711	$ 10,098,019	$ 152,280	$ 10,250,299

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF FUNCTIONAL EXPENSES

Years Ended June 30, 2023 and 2022

2023

	Program Services				Supporting Services		
	Home Building	ReStore	Family Services & Other	Total	General & Admin.	Fund-raising	Total
Cost of homes sold	$ 3,106,789	$ -	$ -	$ 3,106,789	$ -	$ -	$ 3,106,789
Mortgage discount	1,288,714	-	-	1,288,714	-	-	1,288,714
Salaries & related costs	211,262	248,121	318,152	777,535	159,668	230,445	1,167,648
Advertising	-	22,089	-	22,089	-	11,097	33,186
Community projects	-	-	34,590	34,590	-	-	34,590
Credit reports	7,763	-	-	7,763	12,730	-	20,493
Depreciation	-	7,346	6,202	13,548	5,974	-	19,522
Insurance	8,336	11,916	-	20,252	3,273	-	23,525
Interest	12,475	-	-	12,475	-	-	12,475
Miscellaneous	-	504	17,514	18,018	9,939	18,498	46,455
Office	4,023	-	9,026	13,049	26,067	-	39,116
Printing & postage	-	-	18,321	18,321	2,833	63,120	84,274
Professional fees	10,425	-	36,611	47,036	17,767	-	64,803
Rent	21,600	71,305	10,800	103,705	11,565	-	115,270
Repairs & maintenance	7,115	15,838	-	22,953	-	-	22,953
Special events	-	-	-	-	-	25,448	25,448
Supplies	-	-	6,594	6,594	-	-	6,594
Telephone & utilities	3,921	16,570	9,315	29,806	17,830	-	47,636
Tithe & contributions	64,200	-	-	64,200	-	-	64,200
Travel & education	5,497	6,845	1,164	13,506	14,770	405	28,681
Volunteer	-	-	14,718	14,718	3,133	-	17,851
	$ 4,752,120	$ 400,534	$ 483,007	$ 5,635,661	$ 285,549	$ 349,013	$ 6,270,223

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	-	0	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
	$ 5,669,320	$ 331,626	$ 347,766	$ 6,348,712	$ 253,799	$ 252,326	$ 6,854,837

See Notes to Consolidated Financial Statements.

HABITAT FOR HUMANITY OF EVANSVILLE, INC. AND SUBSIDIARY

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended June 30, 2023 and 2022

	2023	2022
Cash flows from operating activities:		
Change in net assets	$ 611,412	$ (952,003)
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation and amortization	22,217	28,233
Origination of mortgages	(2,286,075)	(2,519,214)
Mortgage discount	1,288,714	1,355,362
Mortgage discount amortization	(599,754)	(510,625)
Transfer of homes to Habitat	67,384	-
Unrealized (gain) loss on investments	(523)	-
Change in beneficial interest in assets held by others	12,169	-
Decrease (increase) in assets:		
Houses available for sale	(70,634)	136,705
Construction in process	(224,581)	889,432
Land held for development	(111,603)	174,570
Promises to give	39,495	308,485
Other current assets	(21,254)	5,484
Increase (decrease) in liabilities:		
Accounts payable	(38,850)	66,928
Accrued expenses	39,971	(17,250)
Deferred revenue	(34,590)	(1,900)
Other current liabilities	7,650	10,200
Net cash used for operating activities	(1,298,852)	(1,025,593)
Cash flows from investing activities:		
Principal collected on mortgages	1,067,837	942,520
Purchases of property and equipment	(5,696)	(10,583)
Net sales (purchases) of certificates of deposit	212,686	(13,662)
Distribution from joint venture investment	9,780	9,780
Purchase of investments	(31,757)	-
Transfer to beneficial interest in assets held by others	-	(22,358)
Net cash from investing activities	1,252,850	905,697
Net change in cash, cash equivalents, and restricted cash	(46,002)	(119,896)
Cash, cash equivalents, and restricted cash:		
Beginning of year	1,909,906	2,029,802
End of year	$ 1,863,904	$ 1,909,906
Cash, cash equivalents, and restricted cash:		
Cash and cash equivalents	$ 1,850,007	$ 1,885,584
Cash restricted for joint venture expenses	13,897	24,322
Total cash, cash equivalents, and restricted cash	$ 1,863,904	$ 1,909,906
Supplemental disclosure of cash flow information:		
Interest paid	$ 9,780	$ 9,780

See Notes to Consolidated Financial Statements.

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.

1. Organization and Summary of Significant Accounting Policies, Continued

Houses Available for Sale and Land Held for Development

Houses available for sale represent homes that Habitat has acquired through foreclosure. The carrying value is remaining balance on the mortgage plus costs incurred to prepare the home for resale.

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 20 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.

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.

Investments

Investments are stated at fair value. Investment return is reflected in the statements of activities as with or without donor restrictions based upon the existence and nature of any donor or legally imposed restrictions. Investment income that is initially restricted by donor stipulation and for which the restriction will be satisfied in the same year is included in net assets without donor restrictions. Unrealized gains and losses are included in the change in net assets. Investment income is reported net of investment expenses.

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.

1. Organization and Summary of Significant Accounting Policies, Continued

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.

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. Habitat's donor-restricted endowment funds, including the unspent appreciation of the endowment fund and the portion of Habitat 's donor-restricted endowment funds that Habitat is committed to maintaining in perpetuity are classified in net assets with donor restrictions, as is Habitat 's beneficial interest in assets held by others.

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.

1. Organization and Summary of Significant Accounting Policies, Continued

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.

In-Kind Contributions

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

	2023	2022
Construction materials	$ 20,413	$ 12,320
Professional construction services	22,875	17,725
Program materials	-	1,250
	$ 43,288	$ 31,295

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, 2023 and 2022 were considered without donor restrictions and able to be used by the Organization as determined by the board of directors and management.

1. Organization and Summary of Significant Accounting Policies, Continued

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.

Advertising

Advertising costs are expensed as incurred.

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

Effective July 1, 2022, Habitat adopted the new lease standards under FASB ASC 842. 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. Habitat elected to apply the provisions of this standard retrospectively to the beginning of the period in which ASC Topic 842 was adopted for leases that exist at the date of adoption.

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:

	2023	2022
Cash and cash equivalents	$ 1,815,096	$ 1,816,083
Certificates of deposit	1,077,389	1,274,348
Promises to give	21,961	40,225
Mortgages receivable	881,739	811,690
	$ 3,796,185	$ 3,942,346

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.

3. Promises to Give

Promises to give consisted of the following at June 30:

	2023	2022
Receivable in less than one year	$ 21,961	$ 40,225
Receivable in one to five years	-	22,781
Total promises to give	21,961	63,006
Less discount to net present value	-	(1,550)
Promises to give, net	$ 21,961	$ 61,456

4. Mortgages Receivable

Mortgages receivable consisted of the following at June 30:

	2023	2022
Mortgages receivable – current	$ 881,739	$ 811,690
Mortgages receivable – long-term	13,235,431	12,154,628
Total mortgages receivable	14,117,170	12,966,318
Less discount to net present value	(7,774,640)	(7,085,682)
Mortgages receivable, net	$ 6,342,530	$ 5,880,636

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 11). 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 $922,452 and $932,232 at June 30, 2023 and 2022, respectively.

6. Investments Restricted for Endowment

Investments restricted for endowment consisted of the following as of June 30:

	2023		2022	
	Cost	Fair Value	Cost	Fair Value
Cash and cash equivalents	$ 628	$ 628	$ -	$ -
Mutual funds - stocks	25,467	25,902	-	-
Mutual funds - bonds	5,769	5,750	-	-
	$ 31,864	$ 32,280	$ -	$ -

Investment return consisted of the following for the years ended June 30:

	2023	2022
Interest and dividends	$ 116	$ -
Unrealized gains	415	-
Investment fees	(8)	-
Total investment return	$ 523	$ -

Investment income and gains restricted by donors are reported as increases in net assets without donor restrictions if the restrictions are met in the reporting period in which the income and gains are recognized.

7. Beneficial Interest in Assets Held by Others

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 at June 30, 2023 and 2022. The fair value of the beneficial interest was $78,655 and $90,824 at June 30, 2023 and 2022, respectively.

8. Fair Value of Financial Instruments

Generally accepted accounting principles provide a framework for measuring fair value. That framework establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

Investments in cash and cash equivalents, corporate stocks, and mutual funds have readily determinable fair values and are Level 1 measurements.

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.

Habitat's assets measured at fair value on a recurring basis were as follows for the years ended June 30:

	2023			
	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$ 628	$ -	$ -	$ 628
Mutual funds - stocks	25,902	-	-	25,902
Mutual funds - bonds	5,750	-	-	5,750
Beneficial interest in assets held by others	-	-	78,655	78,655
	$ 32,280	$ -	$ 78,655	$ 110,935

8. Fair Value of Financial Instruments, Continued

	2022			
	Level 1	Level 2	Level 3	Total
Beneficial interest in assets held by others	$ -	$ -	$ 90,824	$ 90,824
	$ -	$ -	$ 90,824	$ 90,824

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:

	2023	2022
Beginning of year	$ 90,824	$ 68,466
Contributions transferred to CFA	-	22,358
Total gains (losses) recognized in the change in net assets with donor restrictions	(12,169)	-
End of year	$ 78,655	$ 90,824

9. Property and Equipment

Property and equipment consisted of the following at June 30:

	2023	2022
Office equipment	$ 107,876	$ 102,181
Building equipment	70,795	70,794
Vehicles	77,862	77,862
Leasehold improvements	78,850	78,850
	335,383	329,687
Accumulated depreciation	(235,216)	(215,694)
Property and equipment, net	$ 100,167	$ 113,993

10. Leases

Habitat leases facilities under noncancelable operating lease agreements. Leases have remaining terms ranging from 35 to 104 months, one of which contains renewal options to extend for two five-year terms. Habitat is reasonably certain to exercise one five-year renewal and has recognized this in the right-of-use assets and lease liabilities. The weighted average remaining lease term for all operating leases is approximately six years. The lease asset and liability were calculated utilizing the risk-free discount rate, which had a weighted average of 3.16%. Total lease expense was $115,270 and $114,633 for the years ended June 30, 2023 and 2022, respectively.

The operating lease right-to-use assets approximate the operating lease liabilities.

Maturities of lease liabilities are as follows for the years ended June 30:

2024	$ 108,700
2025	108,700
2026	103,550
2027	47,682
2028	51,590
Thereafter	163,368
Total lease payments	583,590
Less interest	(35,666)
Present value of lease liabilities	547,924
Less current portion	95,216
Lease liabilities, noncurrent	$ 452,708

11. Long-Term Debt

Long term debt at June 30, 2023 and 2022 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 $65,566 and $68,261 at June 30, 2023 and 2022, respectively.

12. Net Assets with Donor Restrictions

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

	2023	2022
Subject to purpose restrictions:		
Building of homes	$ 291,961	$ 61,456
Net assets to be maintained in perpetuity:		
Investments restricted for endowment	32,280	-
Beneficial interest in assets held by others	78,655	90,824
	$ 402,896	$ 152,280

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

	2023	2022
Satisfaction of purpose restrictions:		
Building of homes	$ 39,495	$ 308,485
Learning center	-	3,154
	$ 39,495	$ 311,639

Donor-designated Endowments

Habitat's endowments consist of donor-restricted funds, which are included in investments restricted for endowment and beneficial interest in assets held by others on the accompanying statement of financial position. The principal balance of the donor-restricted endowments is reported as net assets with donor restrictions based on the existence of such restrictions. Any earnings not expended at year-end are reported as net assets with donor restrictions.

Absent explicit donor stipulations to the contrary, Habitat has interpreted the State of Indiana's Prudent Management of Institutional Funds Act (SPMIFA) as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds. As a result of this interpretation, Habitat retains in perpetuity and classifies as net assets with donor restrictions (1) the original value of gifts donated to the perpetual endowment, (2) the original value of subsequent gifts to the perpetual endowment, and (3) accumulations to the perpetual endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. The remaining portion of the donor-restricted endowment fund that is not retained in perpetuity are subject to appropriation for expenditure by Habitat in a manner consistent with the standard of prudence prescribed by SPMIFA.

12. Net Assets with Donor Restrictions, Continued

Donor-designated Endowments, Continued

In accordance with SPMIFA, Habitat considers the following factors in making a determination to appropriate or accumulate donor-restricted endowment funds: (1) the duration and preservation of the various funds, (2) the purposes of the donor-restricted endowment funds, (3) general economic conditions, (4) the possible effect of inflation and deflation, (5) the expected total return from income and the appreciation of investments, (6) other resources of Habitat, and (7) Habitat 's investment policies.

Habitat has adopted an investment policy that attempts to maximize total return consistent with an acceptable level of risk. Endowment assets are invested in a well-diversified asset mix, which includes equity and debt securities, that is intended to result in a consistent inflation-protected rate of return that has sufficient liquidity to make annual distributions in accordance with the spending policy, while growing the fund. Accordingly, Habitat expects its endowment assets, over time, to produce an average rate of return of approximately 7.5% annually. Actual returns in any given year may vary from this amount. Investments are managed to not expose the fund to unacceptable levels of risk.

Habitat has a spending policy of appropriating for distribution each year, 4.5% of its endowment fund’s average fair value of the prior 12 quarters in the fiscal year in which the distribution is planned. In establishing this policy, Habitat considered the long-term expected return on its investment assets, the nature and duration of the individual endowment funds, which must be maintained in perpetuity because of donor-restrictions, and the possible effects of inflation. Habitat expects the current spending policy to allow its endowment funds to grow at an average rate of 3% annually. This is consistent with Habitat 's objective to maintain the purchasing power of the endowment assets as well as to provide additional real growth through new gifts and investment return.

Changes in endowment net assets were as follows for the years ended June 30:

	2023	2022
Beginning of year	$ 90,824	$ 68,466
Contributions	31,757	22,358
Interest and dividends	116	-
Unrealized gains (losses)	(10,626)	4,062
Fees	(1,136)	(1,151)
Appropriated for expenditure	-	(2,911)
End of year	$ 110,935	$ 90,824

13. 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 $34,392 and $17,708 for the years ended June 30, 2023 and 2022, respectively.

14. 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 $56,700 and $51,300 to HFHI for the years ended June 30, 2023 and 2022, respectively. In addition, Habitat paid HFHI $7,500 for operational support for each of the years ended June 30, 2023 and 2022.

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. 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 and its legal counsel believe Habitat has meritorious defenses and has vigorously contested this litigation. Habitat believes that resolution of this suit will not have a material adverse effect on its financial position.

17. 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 years beginning after December 15, 2022. Management is currently assessing the impact the adoption of this ASU will have on its consolidated financial statements.

18. Subsequent Events

Habitat has evaluated subsequent events through October 3, 2023, the date the consolidated financial statements were available to be issued.