

Habitat for Humanity of Monroe County, Inc.

**Financial Statements
June 30, 2021 and 2020, and
Independent Auditors' Report**

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

June 30, 2021 and 2020

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Independent Auditors' Report

To the Board of Directors
Habitat for Humanity of Monroe County, Inc.
Bloomington, Indiana

Report on the Financial Statements

We have audited the accompanying financial statements of Habitat for Humanity of Monroe County, Inc. (a nonprofit organization), which comprise the statements of financial position as of June 30, 2021 and 2020, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Monroe County, Inc. as of June 30, 2021 and 2020, 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.

Effect of Adopting New Accounting Standard

As discussed in Note 1, Habitat for Humanity of Monroe County, Inc. has adopted Accounting Standards Update (ASU) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. Our opinion is not modified with respect to that matter.

Barnes, Dennig & Co., Ltd.

March 18, 2022
Indianapolis, Indiana

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

**Statements of Financial Position
June 30, 2021 and 2020**

	2021	2020
Assets		
Cash and cash equivalents	\$ 1,683,399	\$ 765,313
Homes for sale or under construction	494,978	251,930
Other assets	42,824	34,226
Investments	65,899	65,828
Land held for development	1,276,922	1,040,494
Mortgages receivable	4,196,360	5,094,081
Property and equipment, net	125,503	140,113
 Total assets	 \$ 7,885,885	 \$ 7,391,985
 Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 149,122	\$ 37,096
Refundable advance	29,708	163,350
Mortgage repurchase obligation	192,631	-
Accrued expenses	103,919	71,172
Line of credit	-	1,300,000
Notes payable	63,203	101,829
 Total liabilities	 538,583	 1,673,447
 Net assets		
Without donor restrictions	7,160,302	5,518,538
With donor restrictions	187,000	200,000
 Total net assets	 7,347,302	 5,718,538
 Total liabilities and net assets	 \$ 7,885,885	 \$ 7,391,985

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

**Statements of Activities
Years Ended June 30, 2021 and 2020**

	2021	2020
Revenues and support		
Contributions	\$ 548,183	\$ 907,947
Home sales	361,127	1,251,782
Imputed interest on non-interest bearing mortgages	319,836	445,000
Merchandise sales	620,452	551,455
Gain on sale of mortgages	573,190	-
Grant revenue	391,234	75,474
Other	27,884	44,199
Net assets released from donor restrictions	541,850	-
	3,383,756	3,275,857
Expenses		
Program services:		
Habitat	1,263,784	2,481,085
Restore	515,511	503,396
Management and administrative	36,904	41,169
Fundraising	107,002	142,640
	1,923,201	3,168,290
Change in net assets without donor restrictions	1,460,555	107,567
Net assets with donor restrictions		
Contributions	487,000	200,000
Grant revenue	41,850	-
Net assets released from restrictions	(541,850)	-
	(13,000)	200,000
Change in net assets with donor restrictions	(13,000)	200,000
Change in net assets	1,447,555	307,567
Net assets - beginning of year	5,718,538	5,410,971
Cumulative effect of change in accounting principle	181,209	-
	5,899,747	5,410,971
Net assets - beginning of year, adjusted	5,899,747	5,410,971
Net assets - end of year	\$ 7,347,302	\$ 5,718,538

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services			Management and Administrative	Fundraising	Total
	Habitat	Restore	Total Program Services			
Cost of homes sold	\$ 327,496	\$ -	\$ 327,496	\$ -	\$ -	\$ 327,496
Mortgage discounts (net of payoffs)	58,827	-	58,827	-	-	58,827
Salaries and wages	568,123	253,116	821,239	28,073	86,423	935,735
Rent	25,939	173,264	199,203	-	3,011	202,214
Travel	10,348	-	10,348	345	805	11,498
Computer support	12,881	191	13,072	455	1,658	15,185
Insurance	21,735	9,874	31,609	1,040	2,006	34,655
Interest	33,215	-	33,215	1,107	2,583	36,905
Vehicle expenses	11,104	10,622	21,726	709	1,203	23,638
Utilities	12,105	4,445	16,550	545	1,083	18,178
Mortgage servicing fees	7,545	-	7,545	251	587	8,383
Advertising	6,182	120	6,302	-	-	6,302
Contributions	74,800	-	74,800	-	-	74,800
Depreciation	11,083	14,708	25,791	838	1,331	27,960
Postage	9,918	39	9,957	332	772	11,061
Repairs and maintenance	3,229	13,481	16,710	538	681	17,929
Professional fees	20,559	-	20,559	685	1,599	22,843
Training	4,712	165	4,877	162	371	5,410
Bank service fees	1,764	13,305	15,069	484	562	16,115
Telephone	-	13,592	13,592	434	434	14,460
Office supplies	5,002	2,774	7,776	256	478	8,510
Bad debt expense	20,000	-	20,000	-	-	20,000
Dues and memberships	-	3,435	3,435	-	-	3,435
Other expenses	17,217	2,380	19,597	650	1,415	21,662
	<u>\$ 1,263,784</u>	<u>\$ 515,511</u>	<u>\$ 1,779,295</u>	<u>\$ 36,904</u>	<u>\$ 107,002</u>	<u>\$ 1,923,201</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

**Statement of Functional Expenses
Year Ended June 30, 2020**

	Program Services			Management and Administrative	Fundraising	Total
	Habitat	Restore	Total Program Services			
Cost of homes sold	\$ 888,583	\$ -	\$ 888,583	\$ -	\$ -	\$ 888,583
Mortgage discounts (net of payoffs)	622,350	-	622,350	-	-	622,350
Salaries and wages	646,947	242,703	889,650	30,483	95,940	1,016,073
Rent	-	159,002	159,002	-	23,491	182,493
Travel	12,478	813	13,291	442	996	14,729
Computer support	36,350	1,979	38,329	1,333	4,757	44,419
Insurance	21,838	10,430	32,268	1,061	2,031	35,360
Interest	55,271	-	55,271	1,842	4,299	61,412
Vehicle expense	13,001	12,644	25,645	837	1,415	27,897
Utilities	10,215	8,896	19,111	625	1,079	20,815
Mortgage servicing fees	6,993	-	6,993	233	544	7,770
Advertising	17,775	2,302	20,077	-	-	20,077
Contributions	76,000	-	76,000	-	-	76,000
Depreciation	10,022	15,520	25,542	829	1,274	27,645
Postage	17,861	143	18,004	600	1,394	19,998
Repairs and maintenance	3,710	9,322	13,032	422	587	14,041
Professional fees	12,586	-	12,586	420	979	13,985
Training	10,034	931	10,965	364	810	12,139
Bank service fees	863	11,197	12,060	401	895	13,356
Telephone	-	12,520	12,520	400	400	13,320
Office supplies	4,203	3,461	7,664	250	437	8,351
Dues and memberships	-	6,567	6,567	-	-	6,567
Other expenses	14,005	4,966	18,971	627	1,312	20,910
	<u>\$ 2,481,085</u>	<u>\$ 503,396</u>	<u>\$ 2,984,481</u>	<u>\$ 41,169</u>	<u>\$ 142,640</u>	<u>\$ 3,168,290</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Statements of Cash Flows
Years ended June 30, 2021 and 2020

	2021	2020
Cash flows from operating activities		
Change in net assets	\$ 1,447,555	\$ 307,567
Adjustments to reconcile change in net assets to net cash provided by operating activities		
Depreciation	27,960	27,645
Unrealized gains	(62)	(2,617)
Bad debt expense	20,000	-
Mortgage discounts	58,827	622,350
Imputed interest on mortgages	(319,836)	(445,000)
Gain on sale of mortgages	(573,190)	-
Changes in:		
Homes for sale or under construction	(243,048)	204,503
Land held for development	(236,428)	127,880
Other assets	(28,598)	(20,764)
Refundable advances	(133,642)	163,350
Mortgage repurchase obligation	192,631	-
Accounts payable and accrued expense	144,773	(19,034)
Net cash provided by operating activities	356,942	965,880
Cash flows from investing activities		
Purchase of investments	(9)	(86)
Withdrawal of investment funds	-	30,000
Originations of mortgages receivable	(361,127)	(1,251,782)
Proceeds from sale of mortgages	307,416	-
Payments on mortgages receivable	666,840	744,288
Purchase of property and equipment	(13,350)	(19,001)
Net cash provided (used) by investing activities	599,770	(496,581)
Cash flows from financing activities		
Proceeds from lines of credit	-	185,000
Payments on lines of credit	-	(152,102)
Payments on notes payable	(38,626)	(329,901)
Net cash provided (used) by financing activities	(38,626)	(297,003)
Net change in cash and cash equivalents	918,086	172,296
Cash and cash equivalents - beginning of year	765,313	593,017
Cash and cash equivalents - end of year	\$ 1,683,399	\$ 765,313
Interest paid	\$ 36,905	\$ 61,412
Non-cash transactions		
Sale of mortgages to repay line of credit	1,300,000	-

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization

Habitat for Humanity of Monroe County, Inc. (HFH) is an independent and locally governed tax exempt non-profit Indiana Corporation formed in 1988 for the purpose of providing residential housing for low-income families who have been residents of Monroe County and adjacent counties for at least one year.

HFH works to end poverty housing in Monroe County and adjacent counties by creating opportunities for home ownership in partnership with low-income families and by making safe, decent, affordable housing a matter of community conscience and action. HFH builds market-quality homes utilizing volunteer labor and sells homes to qualified low-income families for minimal cash down and utilizing 15-30 year non-interest bearing mortgages. Families who purchase homes are identified by the Family Selection Committee who uses predetermined criteria which does not consider race, gender, nationality, age, handicap, religion, marital status or source of personal income. An approved applicant must provide 250 hours of "sweat equity" by participating in a significant amount of labor in its home construction program and/or in some other form of community service. In addition, each buyer must maintain the home as required by the mortgage contract and participate in HFH's nurturing program, which provides pre-purchase and post-purchase homeowner education and counseling.

In addition to home building activities, HFH also operated a retail thrift operation (dba ReStore). ReStore specializes in selling surplus new and used building and home improvement materials, appliances and furniture to the public. ReStore receives donated usable materials from retail businesses, contractors, individuals and other organizations. Costs associated with operation of ReStore are expensed in program-ReStore in the accompanying statement of activities and changes in net assets. All net proceeds from the operation of ReStore help support and enhance HFH's non-profit mission-related activities.

Financial Statement Presentation

The financial statements have been prepared on the accrual basis of accounting in accordance with generally accepted accounting principles (GAAP). HFH is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions, which are available for use in general operations and not subject to donor restrictions; and net assets with donor restrictions, which are either temporary in nature, such as those that will be met by the passage of time or other events specified by the donor, or are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity.

Fair Value Measurements

GAAP has a three-level hierarchy for fair value measurements based on transparency of valuation inputs as of the measurement date. The hierarchy is based on the lowest level of input that is significant to the fair value measurement. The three levels are defined as follows: Level 1 inputs are unadjusted quoted prices for identical assets in active markets; Level 2 inputs are observable quoted prices for similar assets in active markets; Level 3 inputs are unobservable and reflect management's best estimate of what market participants would use as fair value.

Cash

For purposes of the statements of cash flows, HFH considers all liquid investments with an original maturity of three months or less to be cash equivalents. Cash equivalents consist primarily of money market accounts. HFH maintains its cash in bank accounts which, at times, may exceed federally insured limits. HFH has not experienced any losses in its accounts and management believes it is not exposed to any significant credit risks on cash and cash equivalents.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Mortgages Receivable

Mortgages receivable consist of non-interest bearing mortgages, which are secured by real estate and payable in monthly installments. Most of the mortgages mature in 20-30 years. The receivable has been discounted using an imputed interest rate of 7.23% based upon Habitat for Humanity International averages for low income housing. Interest income is recorded over the lives of the mortgages using the effective interest method. HFH's estimate for allowance of loan losses is zero. HFH has had historical success in collecting and makes every effort for homebuyers to arrange repayment even when experiencing financial difficulties. HFH also believes the homes securing the notes are sufficient collateral to not experience loan losses.

Investments

Investments in equity securities having a readily determinable fair value and all debt securities are carried at fair value. Investments at June 30, 2021 and 2020 consisted of money market accounts and certificates of deposit and are valued using Level 2 inputs in the fair value hierarchy. Investments primarily consist of the Pat Wilson Education Fund "the fund" which is designated by the board to assist in encouraging secondary education opportunities for the children of Habitat families in Monroe County. During the years ended June 30, 2021 and 2020, \$-0- and \$30,000, respectively, have been appropriated for expenditure. The fund is open to donations from other donors. The board can modify the fund and expenditures if circumstances or opportunities warrant change.

Assets Held for Development

Assets held for development are reported at cost or if donated, at fair market value at date of donation. Once development is complete, the properties are sold to arranged buyers with the selling price based upon a budgeted formula with excess basis expensed as program cost.

Property and Equipment

Property and equipment are recorded at cost or, if donated or impaired, at fair value at the time of the gift or determination. Depreciation is calculated on a straight-line basis over the estimated useful lives of the respective assets. Major improvements are capitalized, while maintenance and repairs are expensed as incurred.

Contributions

Gifts of cash and other assets received without donor stipulations are reported as without donor restrictions revenue and net assets. Gifts received with a donor stipulation that limits their use are reported as donor restricted revenue and net assets. When a donor 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 statement of activities as net assets released from restrictions. Gifts having donor stipulations which are satisfied in the period the gift is received are reported as without donor restrictions revenue.

In-Kind Donations

The Organization receives certain in-kind donations during the year, which are recorded at fair market value as contribution revenue and an expense in the financial statements. For the years ended June 30, 2021 and 2020, \$66,918 and \$66,638, respectively, were received in in-kind donations.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Home Sales

A portion of HFH's revenue is derived from home sales during the year. Due to the nature of contracts, there is variable consideration in the form of a soft second mortgage that is due if a home is sold within a 30-year window and reduced to zero over the 30-year timeframe and only one performance obligation. Such revenue is conditioned upon meeting the performance obligation, and amounts received are recognized as revenue once the requirement has been met. Once construction is complete on a home and closing procedures have been completed, buyers take possession of the home and the performance obligation is considered to have been met. Each house sold has a defined purchase price based on a third-party appraisal. Contracts are considered to have commercial substance as they all involve a cash down payment and a signed promissory note, which is paid in accordance with the note terms.

ReStore Sales

A portion of HFH's revenue is derived from ReStore sales during the year. Such revenue is conditioned upon meeting one performance obligation, the sale transaction is completed at a ReStore location, and amounts received are recognized as revenue once the sale has been made. Once the sale is made, customers take possession of the goods purchased. These transactions are considered to be contracts with customers as they have commercial substance through the transaction of cash payment in return for the goods purchased. Due to the nature of these transactions, there is no variable consideration and only one performance obligation.

Effect of Adopting New Accounting Standard

In 2021, HFH adopted Accounting Standards Update ("ASU") 2014-09, *Revenue from Contracts with Customers*. The standard's core principle is that an organization will recognize revenue when it transfers promised goods or services to customers in an amount that reflects the consideration to which the organization expects to be entitled in exchange for those goods or services. This standard also includes expanded disclosure requirements that result in an entity providing users of financial statements with comprehensive information about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contract with customers. HFH adopted the ASU using the modified retrospective approach to all contracts that were not completed as of the beginning of fiscal 2021. Results for reporting periods beginning after June 30, 2020, are presented under Topic 606, while prior period amounts and disclosures are not adjusted and continue to be reported under the accounting standards in effect for the prior period. Upon adoption of ASC 606, HFH recorded an adjustment to recognize a receivable for the soft second mortgage receivables which were previously only recorded if they were redeemed; upon adoption of ASC 606, HFH is recognizing this receivable based on estimated future collections on the soft second mortgage. The adjustment of \$181,209 was recorded as an increase to net assets as of July 1, 2020, the date of adoption of ASC 606.

The following table summarizes the impact of ASC 606 on HFH's financial statements for the year ended June 30, 2021:

	As Reported With Adoption of ASC 606	ASC 606 Adjustment	Balance Without Adoption of ASC 606
Mortgages receivable	\$ 4,196,360	\$ 181,209	\$ 4,015,151
Net assets - beginning of year	5,899,747	181,209	5,718,538

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Functional Allocation of Expenses

For purposes of the statement of functional expenses, expenses are allocated directly or indirectly to Habitat, Restore, management and administrative and fundraising. Expenses that can be identified with Habitat, Restore, management and administrative, and fundraising are allocated using both statistical and non-statistical allocation methodologies. The most significant allocations are salaries and related expenses, which were allocated based on estimates of time spent by the Organizations personnel.

Income Taxes

The Organization is exempt from income taxes under Section 501 of the Internal Revenue Code and a similar provision of Indiana law. However, the Organization is subject to federal income tax on any unrelated business taxable income.

The Organization's IRS Form 990 is subject to review and examination by Federal and state authorities. The Organization believes it has appropriate support for any tax positions taken, and therefore, does not have any uncertain income tax positions that are material to the financial statements.

Advertising Costs

Advertising costs are expensed as incurred. Costs totaled \$6,302 and \$20,077 for the year ending June 30, 2021 and 2020, respectively.

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 the revenues, expenses, gains, losses, and other changes in net assets during the reporting period. Actual results could differ from those estimates.

Upcoming Accounting Standards

In February 2016, the FASB issued ASU 2016-02, *Leases*. The standard requires all leases with lease terms over 12 months to be capitalized as a right-of-use asset and lease liability on the statement of financial position at the date of lease commencement. Leases will be classified as either finance or operating. This distinction will be relevant for the pattern of expense recognition in the statement of activities. This standard will be effective for calendar year ending June 30, 2023.

HFH is currently in the process of evaluating the impact of adoption of the ASU on its financial statements.

Subsequent Event Evaluation

Management has evaluated subsequent events through March 18, 2022, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

Reclassification

Certain prior year amounts were reclassified to conform to the current year presentation. The reclassifications had no effect on net income for either year.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

**Notes to Financial Statements
(Continued)**

NOTE 2 LIQUIDITY AND AVAILABILITY

HFH's financial assets available within one year of the statement of financial position date for general expenses are as follows:

	<u>2021</u>	<u>2020</u>
Cash	\$ 1,683,399	\$ 765,313
Mortgages receivable to be collected within one year	<u>500,731</u>	<u>615,611</u>
Total financial assets available	<u><u>\$ 2,184,130</u></u>	<u><u>\$ 1,380,924</u></u>

As part of HFH'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. HFH also has a \$200,000 line of credit available to be used for operations (see Note 6).

NOTE 3 MORTGAGES RECEIVABLE

Mortgages receivable as of June 30, 2021 were \$7,279,219 and were valued, net of present value amortization of \$3,082,859 on the statement of financial position. Mortgages receivable as of June 30, 2020 were \$9,335,816 and were valued, net of present value amortization of \$4,241,735 on the statements of financial position.

HFH also records a second mortgage on properties sold below market value to protect the value of the sale.

During the year ended June 30, 2021 HFH sold 18 mortgages to repay its line of credit which resulted in a gain on sale in the amount of \$573,190.

NOTE 4 FUNDS HELD BY COMMUNITY FOUNDATION

Certain donors have transferred assets to the Community Foundation of Bloomington and Monroe County. The funds are designated to HFH. Since the Community Foundation of Bloomington and Monroe County retains variance power over these funds, they are not recorded on HFH's financial statements. The fair value of the funds held by Community Foundation of Bloomington and Monroe County was approximately \$52,000 and \$40,000 as of June 30, 2021 and 2020, respectively.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

**Notes to Financial Statements
(Continued)**

NOTE 5 PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	2021	2020
Leasehold Improvements	\$ 203,080	\$ 203,080
Equipment	38,012	38,012
Vehicles	200,824	187,474
Less accumulated depreciation	(316,413)	(288,453)
	\$ 125,503	\$ 140,113

NOTE 6 NOTES PAYABLE

Notes payable at June 30 consisted of the following:

	2021	2020
SHOP note 195001 (A)	\$ 1,649	\$ 3,129
SHOP note 211044 (B)	20,976	26,956
SHOP note 221045 (C)	12,870	16,250
SHOP note 181075 (D)	-	5,439
SHOP note 191035 (E)	-	549
SHOP note 192009 (F)	-	6,814
SHOP note 193005 (G)	2,240	6,690
SHOP note 194004 (H)	824	1,564
Convertible line of credit (I)	-	1,300,000
Note payable IUCU (J)	24,644	34,438
	\$ 63,203	\$ 1,401,829

(A) In 2019, HFH obtained a note from Habitat for Humanity International (loan no. 195001) which bears an interest rate of 0%. Monthly payments of \$148 are required. The note matures on May 31, 2022 and is unsecured.

(B) On July 1, 2017, HFH obtained a note from Habitat for Humanity International (loan no. 211044) which bears an interest rate of 0%. Monthly payments of \$598 are required. The note matures on May 31, 2024 and is unsecured.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 6 NOTES PAYABLE (CONTINUED)

- (C) On July 1, 2017, HFH obtained a note from Habitat for Humanity International (loan no. 221045) which bears an interest rate of 0%. Monthly payments are not yet required. The note does not yet have a maturity date set as all SHOP notes have 48-month maturity dates and this will be set once payments are initiated.
- (D) On December 4, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 181075) which bears an interest rate of 0%. Monthly payments of \$600 are required. The note matured on May 31, 2021 and is unsecured.
- (E) On August 5, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 191035) which bears an interest rate of 0%. Monthly payments of \$59 are required. The note matured on May 31, 2021 and is unsecured.
- (F) On August 5, 2014, HFH obtained a note from Habitat for Humanity International (loan no. 192009) which bears an interest rate of 0%. Monthly payments of \$757 are required. The note matured on May 31, 2021 and is unsecured.
- (G) On February 15, 2015, HFH obtained a note from Habitat for Humanity International (loan no. 193005) which bears an interest rate of 0%. Monthly payments of \$445 are required. The note matured on November 30, 2021 and is unsecured.
- (H) During the year, HFH obtained a note from Habitat for Humanity International (loan no. 194004) which bears an interest rate of 0%. Monthly payments of \$74 are required. The note matures on May 31, 2022 and is unsecured.
- (I) HFH has a \$1,000,000 revolving line of credit agreement which was further increased to \$1,300,000 in 2019. As of June 30, 2021, and 2020 \$0 and \$1,300,000, respectively, was borrowed against this line. The line is collateralized by substantially all of the HFH's assets. The outstanding balance at May 15, 2021 was to convert to a term note and lender shall not authorize further advances to borrower as of the date of conversion. The outstanding amount through May 15, 2021 requires monthly payments of interest only at a rate of 4% and then is to be amortized for a fixed term of 10 years and shall accrue interest at a rate of 4.5%. This line was fully repaid and not renewed in the year ended June 30, 2021. HFH also has an additional \$200,000 revolving line of credit agreement. This line had no outstanding balance at June 30, 2021 or 2020 but \$152,102 was drawn and repaid in 2020. This line is collateralized by substantially all of the HFH's assets. Interest accrues at a rate of 4% annually.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

**Notes to Financial Statements
(Continued)**

NOTE 6 NOTES PAYABLE (CONTINUED)

(J) During 2018, HFH obtained a note from the Indiana University Credit Union for \$49,777 which bears interest at the annual rate of 4.5% and requires monthly payments of \$929. The note is secured by the vehicle the loan was used to acquire. The note matures on October 15, 2023.

Scheduled maturities of notes payable are as follows:

Year ending June 30,	
2022	\$ 26,190
2023	21,948
2024	14,363
2025	<u>702</u>
Total	<u>\$ 63,203</u>

NOTE 7 PAYCHECK PROTECTION PROGRAM (PPP) GRANT

On April 23, 2020 HFH entered into a term note pursuant to the Coronavirus Aid, Relief, and Economic Security Act's (CARES Act) Payroll Protection Program (Program) for \$207,900. All or a portion of the note may be forgiven in accordance with the Program requirements. To the extent the loan is not forgiven, interest on the outstanding principal balance will accrue at a fixed rate of 1.00%, but neither principal or interest are due and payable during the initial 6-month deferral period after issuance. After the initial 6-month deferral period expires, the outstanding principal balance that is not forgiven under the Program will convert to an amortizing loan payable in 18 equal installments through the maturity date in April 2022. HFH has elected to apply the conditional contribution guidance pursuant to ASC 958-605 to determine the derecognition of the liability. In accordance with this guidance, the derecognition threshold for the liability is when the conditions of the Program are substantially met and occur on or before the statement of financial position date. As of June 30, 2020, HFH estimated a portion of the conditions have been substantially met and recognized \$44,550 of the Program funds in 2020. The outstanding balance for this refundable advance was \$163,350 as of June 30, 2020. The loan was fully forgiven in 2021 with \$163,350 recognized as grant revenue in 2021.

On March 4, 2021 HFH entered into a term second note pursuant to the Coronavirus Aid, Relief, and Economic Security Act's (CARES Act) Payroll Protection Program (the Program) for \$180,830. All or a portion of the note may be forgiven in accordance with the Program requirements. To the extent the loan is not forgiven, interest on the outstanding principal balance will accrue at a fixed rate of 1.00%, but neither principal or interest are due and payable during the initial 6-month covered period after issuance. After the initial 6-month covered period expires and following an additional 10-month deferral period, the outstanding principal balance that is not forgiven under the Program will convert to an amortizing loan payable in 45 equal installments through the maturity date in March 2026. Similar to the above PPP grant, HFH has elected to apply the conditional contribution guidance pursuant to ASC 958-605. As of June 30, 2021 HFH estimated a portion of the conditions have been substantially met and recognized \$151,122 of the Program funds in 2021. The outstanding balance for this refundable advance was \$29,708 as of June 30, 2021.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 8 NET ASSETS WITH DONOR RESTRICTIONS

At June 30, 2021 net assets with donor restrictions consists of \$187,000 for house sponsorships. At June 30, 2020 net assets with donor restrictions consists of \$200,000 for development of the Osage Place development.

NOTE 9 OPERATING LEASE

HFH leases property for its Restore facility under a noncancelable operating lease that expires May 31, 2021. The lease can be extended for 2 five-year terms and was extended through May 31, 2026. Rent expense for this lease included in the statement of activities was approximately \$173,000 for 2021 and \$159,000 for 2020. HFH is also responsible for real estate taxes under this lease. Future annual minimum lease payments are \$176,000 for 2022 through 2023 and \$182,000 for 2024 through 2026. HFH also leases its office location from First Christian Church for \$1 from 2006 through 2026. The entity recognized \$26,750 of in-kind rent revenue and expense in fiscal 2021.

NOTE 10 COVID-19 PANDEMIC

On March 11, 2020, the World Health Organization (“WHO”) recognized COVID-19 as a global pandemic, prompting many national, regional and local governments to implement preventative or protective measures, such as travel and business restrictions, temporary store closures, and wide-sweeping quarantines and stay-at-home orders. As a result, COVID-19 and the related restrictive measures have had a significant adverse impact upon many sectors of the economy. As a result, several of HFH’s activities have been closed or postponed for various periods of time. Through the date of issuance of these financial statements, all services have been restored at some level. The COVID-19 pandemic remains a rapidly evolving situation. The extent of the impact of COVID-19 on the Habitat for Humanity business and financial results will depend on future developments, including the duration and spread of the outbreak within the market in which the Habitat for Humanity operates and the related impact on consumer confidence and spending, all of which are highly uncertain.

NOTE 11 CONTINGENCIES – LOANS SOLD WITH RECOURSE

During 2021, HFH sold certain loans to an investor (refer to Note 3) pursuant to an agreement which includes recourse provisions that gives the investor the authority to require HFH to repurchase loans in the event a borrower defaults on the loan for 90 days or more. The principal balance of loans subject to these recourse provisions amounted to approximately \$1,700,000 at June 30, 2021. Based on previous loan default history it was estimated approximately 11% of the loans sold could potentially default and be required to be repurchased due to the recourse obligations which amounted to approximately 192,000 at June 30, 2021. HFH was not required to repurchase any loans under this agreement during the year ended June 30, 2021.

NOTE 12 SUBSEQUENT EVENTS

In late November 2021, HFH invested, along with five other Habitat affiliates, in a joint venture, USB NMTC Fund 2020-6, LLC, to take advantage of New Markets Tax Credit (“NMTC”) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who received new markets tax credits to be applied against their federal tax liability. HFH invested a combination of cash and construction in progress totaling \$865,419 for a 12.2% ownership stake, enabling it to secure a 30-year loan in the amount of \$ 1,170,668 payable to HFHI NMTC Sub-CDE IV, LLC, a community development entity. After all transaction fees are deducted, the net benefit to HFH was \$161,250 which was paid in November 2021. The loan proceeds will be used solely for the purpose of constructing and selling qualified housing properties to low-income residents. Although the transaction is structured as a loan, the exit strategy after the 7-year compliance period permits affiliates to satisfy their repayment obligations through an option agreement in lieu of repayment of the loan upon maturity.