

Habitat for Humanity of Monroe County, Inc.

**Financial Statements
June 30, 2023 and 2022, and
Independent Auditors' Report**

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

June 30, 2023 and 2022

Contents

	<u>Page(s)</u>
Independent Auditors' Report	1 - 2
Financial Statements:	
Statements of Financial Position	3
Statements of Activities	4
Statements of Functional Expenses	5 - 6
Statements of Cash Flows	7
Notes to Financial Statements	8 - 16

Independent Auditors' Report

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

Opinion

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, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Monroe County, Inc. as of June 30, 2023 and 2022, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Monroe County, Inc. 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.

Responsibilities of Management for the Financial Statements

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

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Monroe County, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

**Independent Auditors' Report
(Continued)**

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Habitat for Humanity of Monroe County, Inc.'s internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Habitat for Humanity of Monroe County, Inc.'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.

Barnes, Dennig & Co., Ltd.

February 14, 2024
Indianapolis, Indiana

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

**Statements of Financial Position
June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Assets		
Cash and cash equivalents	\$ 550,797	\$ 1,084,168
Homes for sale or under construction	231,227	1,029,816
Other assets	43,365	22,266
Investments	2,575,449	66,639
Investment in Leverage Lender	855,847	865,419
Land held for development	1,722,995	2,382,097
Mortgages receivable	3,908,838	4,070,514
Property and equipment, net	90,024	108,181
Right of use asset - operating lease	502,133	-
Total assets	<u>\$ 10,480,675</u>	<u>\$ 9,629,100</u>
Liabilities and Net Assets		
Liabilities		
Accounts payable	\$ 22,566	\$ 159,196
Accrued expenses	160,020	123,748
Lease liabilities - operating lease	502,133	-
Mortgage repurchase obligation	443,700	192,631
Notes payable less issuance costs	1,066,791	1,107,230
Total liabilities	<u>2,195,210</u>	<u>1,582,805</u>
Net assets		
Without donor restrictions	8,235,324	7,875,745
With donor restrictions - home sponsorships	50,141	170,550
Total net assets	<u>8,285,465</u>	<u>8,046,295</u>
Total liabilities and net assets	<u>\$ 10,480,675</u>	<u>\$ 9,629,100</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC.

**Statements of Activities
June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Revenues and support		
Contributions	\$ 774,502	\$ 803,391
Home sales	2,920,319	661,798
Imputed interest on non-interest bearing mortgages	181,906	212,617
ReStore retail sales	592,591	637,618
Gain on sale of mortgages	702,813	-
Donated rent, materials and services	125,245	153,676
Other	99,947	29,140
Net assets released from donor restrictions	<u>482,125</u>	<u>641,115</u>
 Total revenue and support	 <u>5,879,448</u>	 <u>3,139,355</u>
Expenses		
Program services:		
Habitat	4,842,789	1,752,390
Restore	443,488	501,390
Management and administrative	56,447	51,016
Fundraising	<u>177,145</u>	<u>119,116</u>
 Total expenses	 <u>5,519,869</u>	 <u>2,423,912</u>
 Change in net assets without donor restrictions	 <u>359,579</u>	 <u>715,443</u>
 Net assets with donor restrictions		
Contributions	361,716	624,665
Net assets released from restrictions	<u>(482,125)</u>	<u>(641,115)</u>
 Change in net assets with donor restrictions	 <u>(120,409)</u>	 <u>(16,450)</u>
 Change in net assets	 239,170	 698,993
 Net assets - beginning of year	 <u>8,046,295</u>	 <u>7,347,302</u>
 Net assets - end of year	 <u><u>\$ 8,285,465</u></u>	 <u><u>\$ 8,046,295</u></u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Statement of Functional Expenses Year Ended June 30, 2023

	Program Services			Management and Administrative	Fundraising	Total
	Habitat	ReStore Retail	Total Program Services			
Salaries and wages	\$ 621,845	\$ 193,651	\$ 815,496	\$ 29,076	\$ 124,654	\$ 969,226
Cost of homes sold	2,405,436	-	2,405,436	-	-	2,405,436
Mortgage discounts (net of payoffs)	1,509,082	-	1,509,082	-	-	1,509,082
Rent	17,327	176,595	193,922	-	29,490	223,412
Contributions	100,000	-	100,000	-	-	100,000
Insurance	31,282	12,329	43,611	1,435	2,768	47,814
Computer support	20,753	514	21,267	740	2,697	24,704
Vehicle expenses	8,630	7,656	16,286	531	902	17,719
Other expenses	26,012	2,086	28,098	-	-	28,098
Travel	16,077	-	16,077	552	1,198	17,827
Depreciation	8,543	14,432	22,975	748	1,185	24,908
Professional fees	32,827	-	32,827	1,095	2,552	36,474
Utilities	12,921	3,267	16,188	533	1,059	17,780
Bank service fees	379	12,595	12,974	419	576	13,969
Telephone	-	14,566	14,566	480	952	15,998
Postage and printing	10,307	685	10,992	367	913	12,272
Training	7,129	-	7,129	237	542	7,908
Office supplies	2,811	1,518	4,329	142	267	4,738
Public relations	-	-	-	-	6,224	6,224
Interest	-	-	-	8,373	-	8,373
Repairs and maintenance	2,040	3,594	5,634	181	238	6,053
Temporary help	3,956	-	3,956	138	506	4,600
Mortgage servicing fees	5,432	-	5,432	181	422	6,035
Amortization	-	-	-	11,219	-	11,219
	<u>\$ 4,842,789</u>	<u>\$ 443,488</u>	<u>\$ 5,286,277</u>	<u>\$ 56,447</u>	<u>\$ 177,145</u>	<u>\$ 5,519,869</u>

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Statement of Functional Expenses Year Ended June 30, 2022

	Program Services			Management and Administrative		Fundraising	Total
	Habitat	ReStore Retail	Total Program Services				
				\$	\$	\$	\$
Salaries and wages	\$ 627,243	\$ 240,562	\$ 867,805	\$ 29,664	\$ 91,324	\$ 988,793	
Cost of homes sold	480,640	-	480,640	-	-	480,640	
Mortgage discounts (net of payoffs)	321,912	-	321,912	-	-	321,912	
Rent	36,672	173,956	210,628	-	3,183	213,811	
Contributions	96,000	-	96,000	-	-	96,000	
Insurance	29,507	10,222	39,729	1,306	2,522	43,557	
Computer support	19,975	4,769	24,744	863	3,137	28,744	
Vehicle expenses	13,080	13,033	26,113	852	1,446	28,411	
Other expenses	24,421	3,239	27,660	-	-	27,660	
Travel	23,967	-	23,967	798	1,865	26,630	
Depreciation	8,232	14,432	22,664	737	1,169	24,570	
Professional fees	21,957	-	21,957	732	1,707	24,396	
Utilities	12,411	3,847	16,258	535	1,064	17,857	
Bank service fees	346	14,875	15,221	1,527	538	17,286	
Telephone	-	13,797	13,797	454	903	15,154	
Postage and printing	11,305	1,043	12,348	409	914	13,671	
Training	7,964	154	8,118	270	617	9,005	
Office supplies	3,749	2,999	6,748	222	415	7,385	
Public relations	-	-	-	-	6,908	6,908	
Interest	-	-	-	6,695	-	6,695	
Repairs and maintenance	1,748	4,462	6,210	199	253	6,662	
Temporary help	5,510	-	5,510	192	704	6,406	
Mortgage servicing fees	5,751	-	5,751	192	447	6,390	
Amortization	-	-	-	5,369	-	5,369	
	\$ 1,752,390	\$ 501,390	\$ 2,253,780	\$ 51,016	\$ 119,116	\$ 2,423,912	

See accompanying notes to financial statements

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

**Statements of Cash Flows
June 30, 2023 and 2022**

	<u>2023</u>	<u>2022</u>
Cash flows from operating activities		
Change in net assets	\$ 239,170	\$ 698,993
Adjustments to reconcile change in net assets to net cash provided (used) by operating activities		
Depreciation	24,908	24,570
Mortgage discounts	1,509,082	321,912
Imputed interest on mortgages	(181,906)	(212,617)
Amortization of debt issuance costs	11,219	5,369
Gain on sale of mortgages	(702,813)	-
Changes in:		
Homes for sale or under construction	798,589	(534,838)
Land held for development	659,102	(1,105,175)
Other assets	(11,527)	(17,446)
Refundable advances	-	(29,708)
Mortgage repurchase obligation	251,069	-
Accounts payable and accrued expense	(100,358)	67,167
Net cash provided (used) by operating activities	<u>2,496,535</u>	<u>(781,773)</u>
Cash flows from investing activities		
Purchase of investments	(2,508,810)	(378,183)
Originations of mortgages receivable	(2,920,319)	(618,590)
Proceeds from sale of mortgages	2,033,593	-
Payments on mortgages receivable	424,039	635,141
Purchase of property and equipment	(6,751)	(7,248)
Net cash used by investing activities	<u>(2,978,248)</u>	<u>(368,880)</u>
Cash flows from financing activities		
Proceeds from notes payable	-	720,675
Payments on debt issuance costs	-	(143,063)
Payments on notes payable	(51,658)	(26,190)
Net cash provided (used) by financing activities	<u>(51,658)</u>	<u>551,422</u>
Net change in cash and cash equivalents	(533,371)	(599,231)
Cash and cash equivalents - beginning of year	<u>1,084,168</u>	<u>1,683,399</u>
Cash and cash equivalents - end of year	<u><u>\$ 550,797</u></u>	<u><u>\$ 1,084,168</u></u>
Supplemental Cash Flows Information:		
Interest paid	\$ 8,373	\$ 6,695
Non-cash contribution of CIP to HFHI investment	-	487,236

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.

Recently Adopted Accounting Guidance – Leases

In February 2016, the Financial Accounting Standards Board (FASB) issued guidance (Accounting Standards Codification [ASC] 842, *Leases*) to increase transparency and comparability among organizations by requiring the recognition of right-of-use (ROU) assets and lease liabilities on the balance sheet. Most prominent among the changes in the standard is the recognition of ROU assets and lease liabilities by lessees for those leases classified as operating leases. Under the standard, disclosures are required to meet the objective of enabling users of financial statements to assess the amount, timing, and uncertainty of cash flows arising from leases.

HFH adopted the standard effective July 1, 2022 and recognized and measured leases existing at, or entered into after, July 1, 2022 (the beginning of the period of adoption) through a cumulative effect adjustment, with certain practical expedients available.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Recently Adopted Accounting Guidance – Leases

HFH elected the available practical expedients to account for the existing capital leases and operating leases as finance leases and operating leases, respectively, under the new guidance, without reassessing (a) whether the contracts contain leases under the new standard, (b) whether classification of capital leases or operating leases would be different in accordance with the new guidance, or (c) whether the unamortized initial direct costs before transition adjustments would have met the definition of initial direct costs in the new guidance at lease commencement.

As a result of the adoption of the new lease accounting guidance, HFH recognized on July 1, 2022 (beginning of the year of adoption) a lease liability of approximately \$651,000, which represents the present value of the remaining operating lease payments of approximately \$702,000, discounted using a risk-free rate of 2.88%, and a right-of-use asset of approximately \$651,000.

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. Money market accounts managed with HFH's investments (Note 3) are not included in cash equivalents. 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.

Investments and Investment Return

Investments in equity and debt securities are carried at fair value. Investments in certificates of deposit are carried at original investment plus accrued interest. Investment return 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.

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 ranging from 7.49% - 7.85% 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.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Conditional promises to give are recognized as revenues when the conditions on which they depend are substantially met, generally as qualifying expenses are incurred. HFH has numerous grants for which the grantor agencies' promises to give are conditioned upon HFH incurring certain qualifying expenses under the grant programs. At June 30, 2023 HFH had remaining available award balances on conditional grants of \$1,773,076. These award balances are not recognized as assets and will be recognized as revenue without donor restrictions as conditions are met.

Contributed Nonfinancial Assets

HFH receives various forms of gifts-in-kind (nonfinancial asset contributions), including inventory items to be sold in the ReStore, rent, professional services, and construction materials and other supplies. ReStore items are valued at 100% of the items' sales price. Other gifts-in-kind are recognized at their estimated fair value at the date of receipt based on current rates for similar items or services in the market and are expensed as utilized. These nonfinancial assets are used in providing program services and to support those services.

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.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ReStore Sales

ReStore 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 ReStore sales, there is no variable consideration and only one performance obligation.

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 HFH personnel.

Leases

HFH leases building space for its ReStore location. HFH determines if an arrangement is a lease at inception. Operating leases are included in operating lease right-of-use (ROU) assets and lease liabilities on the statement of financial position.

ROU assets represent the right to use an underlying asset for the lease term and lease liabilities represent the obligation to make lease payments arising from the lease. Operating lease ROU assets and liabilities are recognized at commencement date based on the present value of lease payments over the lease term. As most leases do not imply an implicit rate, a risk-free rate is used based on the information available at commencement date in determining the present value of lease payments. Operating lease ROU assets also includes any lease payments made and excludes lease incentives. Lease terms may include options to extend or terminate the lease when it is reasonably certain that HFH will exercise that option. Lease expense is recognized on a straight-line basis over the lease term.

HFH's lease agreements do not contain any material residual value guarantees or material restrictive covenants.

In evaluating contracts to determine if they qualify as a lease, HFH considers factors such as if they have obtained substantially all of the rights to the underlying asset through exclusivity, if they can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. This evaluation may require significant judgment.

Income Taxes

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

HFH's IRS Form 990 is subject to review and examination by Federal and state authorities. HFH 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.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Reclassifications

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

Subsequent Event Evaluation

Management has evaluated subsequent events through February 14, 2024, which represents the date the financial statements were available to be issued. Subsequent events after that date have not been evaluated.

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:

	2023	2022
Cash	\$ 550,797	\$ 1,084,168
Mortgages receivable to be collected within one year	481,567	503,732
Total financial assets available	<u>\$ 1,032,364</u>	<u>\$ 1,587,900</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.

NOTE 3 INVESTMENTS

Investments at June 30 consisted of the following:

	2023	2022
Money market funds	\$ 421,697	\$ 44,675
U.S. Treasury bills	2,090,514	-
Certificates of deposit	63,238	21,964
	<u>\$ 2,575,449</u>	<u>\$ 66,639</u>

Money market funds and U.S. Treasury bills are valued using Level 2 inputs. Certificates of deposit are not subject to the fair value hierarchy.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 4 MORTGAGES RECEIVABLE

Mortgages receivable as of June 30, 2023 were \$7,235,709 and were valued, net of present value amortization of \$3,908,838 on the statement of financial position. Mortgages receivable as of June 30, 2022 were \$7,262,668 and were valued, net of present value amortization of \$4,070,514 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, 2023 HFH sold 22 mortgages which resulted in a gain on sale in the amount of \$702,813.

NOTE 5 INVESTMENT IN LEVERAGE LENDER

In 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 under Section 45D of the Internal Revenue Code.

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 (See Note 7). 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.

In 2023, HFH received a distribution of \$9,572 reducing its investment to \$855,847.

NOTE 6 PROPERTY AND EQUIPMENT

Property and equipment at June 30 consisted of the following:

	<u>2023</u>	<u>2022</u>
Leasehold Improvements	\$ 209,830	\$ 203,080
Equipment	45,260	45,260
Vehicles	177,074	200,824
Less accumulated depreciation	<u>(342,140)</u>	<u>(340,983)</u>
	<u>\$ 90,024</u>	<u>\$ 108,181</u>

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

Notes to Financial Statements (Continued)

NOTE 7 NOTES PAYABLE

Notes payable at June 30 consisted of the following:

	<u>2023</u>	<u>2022</u>
SHOP note 211044 (A)	\$ 6,624	\$ 13,800
SHOP note 221045 (B)	4,758	8,814
Note payable IUCU (C)	-	14,399
SHOP note 251017 (D)	10,043	10,043
City of Bloomington loan (E)	-	27,200
QLICI loans (F)	<u>1,170,668</u>	<u>1,170,668</u>
	1,192,093	1,244,924
Less debt issuance costs	<u>(125,302)</u>	<u>(137,694)</u>
	<u>\$ 1,066,791</u>	<u>\$ 1,107,230</u>

- (A) 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.
- (B) 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 of \$338 are required. The note matures on August 1, 2024 and is unsecured.
- (C) 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 originally was to mature on October 15, 2023, however it was paid off in June 2023.
- (D) On April 14, 2022, HFH obtained a note from Habitat for Humanity International for \$10,043 (loan no. 251017) which bears an interest rate of 0%. Monthly payments of \$209 are required. The note matures on April 1, 2028 and is unsecured.
- (E) During 2022, HFH obtained a note from the City of Bloomington for up to \$40,000 for a non-interest bearing forgivable loan for HFH to construct and sell to a qualified income buyer a property with loan to be forgiven at the end of a 20 year affordability period. The property was sold to a qualified buyer in fiscal 2023 and the loan was forgiven.
- (F) On November 9, 2021, HFH obtained two notes from HFHI NMTC SUB – CDE IV and V, LLC for \$1,053,601 and \$117,067, respectively. Both loans require semi-annual interest only payments until 2028 at .7379%. Semi-annual payments totaling approximately \$69,000 are due beginning November 2029 through the maturity date of November 2051. The loans are secured by certain property for qualified low-income housing projects. The NMTC investor has the option to waive the loans in January 2029. The balance of the loans is reduced by unamortized loan costs of \$125,302 and \$137,694 at June 30, 2023 and 2022, respectively.

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

**Notes to Financial Statements
(Continued)**

NOTE 7 NOTES PAYABLE (CONTINUED)

Aggregate annual maturities of notes payable are as follows:

Year ending June 30,	
2024	\$ 11,000
2025	3,000
2026	3,000
2027	2,000
2028	2,000
Thereafter	<u>1,171,093</u>
	<u>\$ 1,192,093</u>

NOTE 8 OPERATING LEASE

As discussed in Note 1, HFH adopted ASC 842 effective July 1, 2022. Lease disclosures for 2023 are in accordance with ASC 842, while lease disclosures for 2022 are in accordance with ASC 840.

Year Ended June 30, 2023

HFH leases property for its Restore facility under a noncancelable operating lease that expired May 31, 2021. The lease can be extended for 2 five-year terms and was extended through May 31, 2026.

The components of lease expense for 2023 were as follows:

Operating lease expense	\$ 179,264
Variable lease expense	<u>44,148</u>
	<u>\$ 223,412</u>

Other information related to this operating lease is as follows:

Operating cash flows	\$ 179,264
Weighted average remaining lease term in years	3
Weighted average discount rate	2.88%

Future minimum lease payments at of June 30, 2023 are as follows:

2024	\$ 179,268
2025	179,268
2026	<u>164,329</u>
Total lease payments	522,865
Less present value discount	<u>(20,732)</u>
Present value of lease liability	<u>\$ 502,133</u>

HABITAT FOR HUMANITY OF MONROE COUNTY, INC

**Notes to Financial Statements
(Continued)**

NOTE 8 OPERATING LEASE (Continued)

Year Ended June 30, 2022

Rent expense for this lease included in the statement of activities was approximately \$174,000 for 2022. HFH is also responsible for real estate taxes under this lease. Future annual minimum lease payments are \$176,000 for 2023 and \$182,000 a year for 2024 through 2026.

HFH also leases its office location from First Christian Church (Church) for \$1 from 2006 through 2026. However, beginning in 2016 the Church may be terminate the lease by giving HFH 120 days notice. The entity recognized \$28,100 of in-kind rent revenue and expense in 2023 and 2022.

NOTE 9 CONTINGENCIES – LOANS SOLD WITH RECOURSE

During fiscal 2021 and 2023, HFH sold certain loans to an investor (refer to Note 4) 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 \$2,300,000 and \$1,700,000 at June 30, 2023 and 2022, respectively. 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 \$444,000 and \$192,000 at June 30, 2023 and 2022, respectively. HFH was not required to repurchase any loans under this agreement during the years ended June 30, 2023 or 2022.