

**HABITAT FOR HUMANITY
OF MORGAN COUNTY, INC.
(A NONPROFIT ORGANIZATION)**

FINANCIAL STATEMENTS

JUNE 30, 2022

**WITH SUMMARIZED COMPARATIVE FINANCIAL
INFORMATION AS OF AND FOR THE YEAR
ENDED JUNE 30, 2021**

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

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WITH SUMMARIZED COMPARATIVE FINANCIAL
INFORMATION AS OF AND FOR THE YEAR ENDED JUNE 30, 2021**

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Independent Auditors' Report

To the Board of Directors and Management of
HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.
Martinsville, Indiana

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of Habitat for Humanity of Morgan County, Inc., (a nonprofit corporation) (Habitat or the Organization), which comprise the statement of financial position as of June 30, 2022, and the related statement of activities and changes in net assets, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Habitat for Humanity of Morgan County, Inc. as of June 30, 2022, and the results of its operations and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat for Humanity of Morgan County, Inc. and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibility of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 Morgan County, Inc.'s ability to continue as a going concern for one year after the date that the financial statements are available to be issued.

Auditors' Responsibility 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 auditors' 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 GAAS 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.

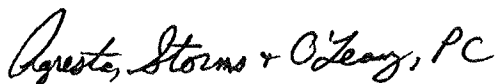
In performing an audit in accordance with GAAS, we:

- 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 Morgan 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 Morgan 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.

Report on Summarized Comparative Information

We have previously audited Habitat for Humanity of Morgan County, Inc.'s June 30, 2021 financial statements, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 8, 2021. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2021 is consistent, in all material respects, with the audited financial statements from which it has been derived.



Martinsville, Indiana
October 14, 2022

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022
WITH SUMMARIZED COMPARATIVE
FINANCIAL INFORMATION AS OF JUNE 30, 2021

| | <u>2022</u> | <u>2021</u> |
|--|--------------------------|--------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 88,351 | \$ 103,988 |
| Grants receivable | 19,218 | -0- |
| Other receivables | 3,887 | 25,253 |
| Mortgage notes receivable, current portion | 48,313 | 55,152 |
| Land and housing inventory | 61,137 | 9,500 |
| Prepaid expenses | <u>1,938</u> | <u>1,938</u> |
| Total current assets | <u>222,844</u> | <u>195,831</u> |
| Property and equipment: | | |
| Land | 25,450 | 25,450 |
| Building and improvements | 138,206 | 134,766 |
| Equipment | 47,852 | 56,716 |
| Furniture and fixtures | <u>5,559</u> | <u>5,559</u> |
| | 217,067 | 222,491 |
| Accumulated depreciation | <u>(121,861)</u> | <u>(118,868)</u> |
| Property and equipment, net | <u>95,206</u> | <u>103,623</u> |
| Other assets: | | |
| Mortgage notes receivable, net of current portion | 309,405 | 259,760 |
| Construction-in-progress | 5,423 | 3,241 |
| Beneficial interest in assets held by Community Foundation | <u>34,668</u> | <u>42,308</u> |
| Total other assets | <u>349,496</u> | <u>305,309</u> |
| Total assets | <u><u>\$ 667,546</u></u> | <u><u>\$ 604,763</u></u> |

See Accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF FINANCIAL POSITION

JUNE 30, 2022
WITH SUMMARIZED COMPARATIVE
FINANCIAL INFORMATION AS OF JUNE 30, 2021

| | <u>2022</u> | <u>2021</u> |
|--|-------------------|-------------------|
| LIABILITIES AND NET ASSETS | | |
| Current liabilities: | | |
| Accounts payable | \$ 33,843 | \$ -0- |
| Escrow deposits | 1,340 | 1,382 |
| Accrued liabilities | 537 | 566 |
| Current maturities of note payable | <u>13,227</u> | <u>19,234</u> |
| Total current liabilities | 48,947 | 21,182 |
| Note payable, net of current maturities | <u>67,633</u> | <u>126,039</u> |
| Total liabilities | <u>116,580</u> | <u>147,221</u> |
| Net assets: | | |
| Without donor restrictions | 497,402 | 404,606 |
| With donor restrictions | <u>53,564</u> | <u>52,936</u> |
| Total net assets | <u>550,966</u> | <u>457,542</u> |
| Total liabilities and net assets | <u>\$ 667,546</u> | <u>\$ 604,763</u> |

See Accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF ACTIVITIES AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2022 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

| | Year Ended June 30, 2022 | | | Year Ended June 30, 2021 |
|--------------------------------------|----------------------------------|-------------------------------|-------------------|--------------------------------|
| | Without Donor Restrictions | With Donor Restrictions | Total | |
| Support and revenues: | | | | |
| Transfers to homeowners | \$ 113,431 | \$ -0- | \$ 113,431 | \$ 91,925 |
| Net sales, ReStore | 99,530 | -0- | 99,530 | 109,283 |
| Contributions | 51,704 | 76,201 | 127,905 | 117,364 |
| Grants | 54,507 | -0- | 54,507 | 32,748 |
| Mortgage loan discount amortization | 125,077 | -0- | 125,077 | 34,068 |
| In-kind contributions | 11,528 | -0- | 11,528 | 8,453 |
| Fundraising events | 35,873 | -0- | 35,873 | 36,980 |
| PPP forgiveness income | -0- | -0- | -0- | 13,555 |
| Other income | 224 | -0- | 224 | 881 |
| Interest income | 2,887 | -0- | 2,887 | 2,505 |
| Gain (loss) on beneficial interest | -0- | (7,640) | (7,640) | 7,322 |
| Release from restrictions | 67,933 | (67,933) | -0- | -0- |
| Total support and revenues | <u>562,694</u> | <u>628</u> | <u>563,322</u> | <u>455,084</u> |
| Expenses: | | | | |
| Program services | 418,900 | -0- | 418,900 | 363,147 |
| General administration | 44,598 | -0- | 44,598 | 41,564 |
| Fundraising | 6,400 | -0- | 6,400 | 14,651 |
| Total expenses | <u>469,898</u> | <u>-0-</u> | <u>469,898</u> | <u>419,362</u> |
| Change in net assets | 92,796 | 628 | 93,424 | 35,722 |
| Net assets, beginning of year | <u>404,606</u> | <u>52,936</u> | <u>457,542</u> | <u>421,820</u> |
| Net assets, end of year | <u>\$ 497,402</u> | <u>\$ 53,564</u> | <u>\$ 550,966</u> | <u>\$ 457,542</u> |

See Accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

YEAR ENDED JUNE 30, 2022 WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

| | Year Ended June 30, 2022 | | | | | | |
|--------------------------------|--------------------------|-----------|------------------|------------------------|-------------|------------|--------------------------|
| | Program Services | | | | | | |
| | Total | | | | | | |
| | Housing | Restore | Program Services | General Administration | Fundraising | Total | Year Ended June 30, 2021 |
| Building material and supplies | \$ 128,898 | \$ -0- | \$ 128,898 | \$ -0- | \$ -0- | \$ 128,898 | \$ 114,418 |
| Personnel costs | 30,856 | 59,087 | 89,943 | 8,633 | -0- | 98,576 | 87,169 |
| Partner family support | 67,934 | -0- | 67,934 | -0- | -0- | 67,934 | 53,459 |
| Mortgage discounts | 68,613 | -0- | 68,613 | -0- | -0- | 68,613 | 42,527 |
| Utilities | 4,173 | 5,629 | 9,802 | 4,657 | -0- | 14,459 | 16,235 |
| Professional services | -0- | -0- | -0- | 12,788 | -0- | 12,788 | 11,651 |
| Depreciation | 2,912 | 6,027 | 8,939 | 2,911 | -0- | 11,850 | 11,116 |
| Outside labor | 12,165 | -0- | 12,165 | -0- | -0- | 12,165 | 11,944 |
| Insurance | 2,364 | 3,657 | 6,021 | 2,415 | -0- | 8,436 | 10,433 |
| Office expense | 1,211 | 637 | 1,848 | 6,279 | -0- | 8,127 | 7,102 |
| Interest expense | 6,903 | -0- | 6,903 | -0- | -0- | 6,903 | 7,874 |
| Special events | -0- | -0- | -0- | -0- | -0- | 6,400 | 14,651 |
| Tithe - Habitat International | 5,893 | -0- | 5,893 | -0- | -0- | 5,893 | 8,257 |
| Dues and fees | -0- | -0- | -0- | 5,000 | -0- | 5,000 | 5,000 |
| Purchases for resale | -0- | 3,634 | 3,634 | -0- | -0- | 3,634 | 3,761 |
| Vehicle expenses | -0- | 3,218 | 3,218 | -0- | -0- | 3,218 | 4,228 |
| Rent expense | 1,248 | 43 | 1,291 | 1,560 | -0- | 2,851 | 4,603 |
| Bank and credit card fees | -0- | 1,630 | 1,630 | -0- | -0- | 1,630 | 2,517 |
| Miscellaneous expenses | -0- | 1,449 | 1,449 | -0- | -0- | 1,449 | 1,366 |
| Travel | -0- | 200 | 200 | 355 | -0- | 555 | 739 |
| Printing and reproduction | 519 | -0- | 519 | -0- | -0- | 519 | 312 |
| Total | \$ 333,689 | \$ 85,211 | \$ 418,900 | \$ 44,598 | \$ 6,400 | \$ 469,898 | \$ 419,362 |

See Accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2022
WITH SUMMARIZED COMPARATIVE FINANCIAL
INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

| | <u>2022</u> | <u>2021</u> |
|--|------------------|-------------------|
| Cash flows from operating activities: | | |
| Change in net assets | \$ 93,424 | \$ 35,722 |
| Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities: | | |
| Transfers to homeowners, net | (44,818) | (47,898) |
| Loss on sale of property and equipment | 7 | -0- |
| (Gain) loss on beneficial interest | 7,640 | (7,322) |
| PPP forgiveness income | -0- | (13,555) |
| Partner family support - mortgage notes receivable | 67,934 | 53,459 |
| Depreciation | 11,850 | 11,116 |
| Amortization of mortgage discounts | (125,077) | (34,068) |
| Changes in operating assets and liabilities: | | |
| Grant receivable | (19,218) | -0- |
| Construction-in-progress | (2,182) | 7,621 |
| Land and housing inventory | (51,637) | 17,500 |
| Prepaid expenses | -0- | 940 |
| Accounts payable | 33,843 | (1,963) |
| Escrow deposits | (42) | 296 |
| Accrued liabilities | (29) | (1,990) |
| Net cash provided by (used in) operating activities | <u>(28,305)</u> | <u>19,858</u> |
| Cash flows from investing activities: | | |
| Purchase of property and equipment | (3,440) | (5,858) |
| Payments received on mortgage notes receivable | 80,521 | 67,310 |
| Net cash provided by investing activities | <u>77,081</u> | <u>61,452</u> |
| Cash flows from financing activities: | | |
| Principal payments on long-term debt | (64,413) | (18,471) |
| Net cash used in financing activities | <u>(64,413)</u> | <u>(18,471)</u> |
| Net increase (decrease) in cash and cash equivalents | (15,637) | 62,839 |
| Cash and cash equivalents, beginning of year | 103,988 | 41,149 |
| Cash and cash equivalents, end of year | <u>\$ 88,351</u> | <u>\$ 103,988</u> |
| Supplemental disclosure of cash flow information: | | |
| Cash payments for interest | <u>\$ 6,903</u> | <u>\$ 7,874</u> |

See Accompanying Notes to Financial Statements.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021

1. ORGANIZATION AND PURPOSE

Habitat for Humanity of Morgan County, Inc. (a nonprofit corporation) (Habitat or the Organization) was incorporated August 6, 1990 in the State of Indiana. Habitat was established as a nondenominational, Christian, not-for-profit organization for the purposes of constructing modest but adequate housing, and to associate with other organizations functioning with purposes consistent with Habitat. Habitat for Humanity International awarded Habitat "Affiliate" status in 1991.

An Affiliate is an independent, local branch of Habitat for Humanity International (International). Habitat receives support from International through global advertising, brand recognition, and operational manuals, as well as training and other support services. Habitat contributes to International's global ministry through a Tithe program. During the years ended June 30, 2022 and 2021, Habitat participated in the Tithe program with a donation of \$5,893 and \$8,257 to International, respectively.

The principal activities of Habitat include developing, financing, and supervising the construction of homes for low-income families. Habitat also operates a "ReStore" facility where donated used or excess building supplies are sold to the general public at discount prices.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Habitat have been prepared on the accrual basis of accounting in conformity with accounting principles generally accepted in the United States of America. The significant accounting policies followed are described below.

BASIS OF PRESENTATION

The financial statements follow certain provisions of Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958, *Financial Statements of Not-for-Profit Organizations*. This statement established standards for external financial reporting for not-for-profit organizations.

ASC 958 primarily affects the display of financial statements and requires that the amounts for each of two classes of net assets – net assets with donor restrictions and net assets without donor restrictions – be displayed in an aggregate statement of financial position and the amounts of change in each of those classes be displayed in a statement of activities. The two net asset accounts used include the following:

Net Assets without Donor Restrictions—Funds that have not been restricted in any manner by the donors are referred to as net assets without donor restrictions and are available for general Habitat purposes. At June 30, 2022 and 2021, Habitat had net assets without donor restrictions of \$497,402 and \$404,606, respectively.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

Net Assets with Donor Restrictions—Net asset amounts received from donors or grantors who have specified the use of their gifts or grants for specific purposes. Net assets with donor restrictions are subject to donor-imposed restrictions that will be met by future obligations or are to be invested and maintained intact in perpetuity. At June 30, 2022 and 2021, Habitat had net assets with donor restrictions of \$53,564 and \$52,936, respectively.

CASH AND CASH EQUIVALENTS

Habitat considers deposits that can be redeemed on demand and investments that have original maturities of less than three months, when purchased, to be cash equivalents.

Habitat currently services the mortgages on the homes it sells. Included in cash are amounts received for insurance and property taxes on such homes. These amounts are offset by a related liability escrow deposits account of \$1,340 and \$1,382 at June 30, 2022 and 2021, respectively.

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 notes to the financial statements, as well as the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Significant estimates made in the preparation of the financial statements include the allocation of costs among the Organization's various programs in the statement of functional expenses, the depreciable lives of property and equipment, and mortgage notes receivable.

LAND AND HOUSING INVENTORY

Land and housing inventory consists of real property purchased or donated to the organization for the purpose of future home builds or for resale. The property is recorded at actual cost for purchases or at the estimated value of the property at the time of donation. The Organization reviews the valuation of its property for impairment whenever events or changes in circumstances indicate the carrying value of such property may not be recoverable. If the property is considered to be impaired, the impairment to be recognized is measured at the amount by which the carrying amount of the property exceeds the fair value of such property. No impairment loss of has been recognized during the years ended June 30, 2022 and 2021.

PROPERTY AND EQUIPMENT AND DEPRECIATION

Habitat capitalizes purchases at cost that have an estimated useful life of greater than one year. Donated property and equipment are stated at fair market value at the time of the gift. Maintenance, repairs and minor renewals are expensed as incurred. The Organization follows the practice of depreciating the cost of property and equipment using the straight-line method of depreciation over their estimated useful lives which range from 5 to 39 years.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021

REPOSSESSED PROPERTY

Reposessed property is recorded based on the net mortgage balance on the property at the time of foreclosure. The property is also evaluated and adjusted for the lower of cost or market. Habitat did not hold any reposessed property as of June 30, 2022 and 2021.

CONTRIBUTIONS AND GRANTS

Contributions and grants are recognized as revenue in the period received or at the time a claim for the actual cost of providing services is determined and reported in the statement of activities. These contributions and grants are recorded as restricted support if they are received with donor or grantor stipulations that limit the use of the contributions. When a restriction expires, that is, when a stipulated time restriction ends or purpose restriction 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. However, if restrictions on contributions or grants are met in the same reporting period as the contribution or grant is received, the amounts are reported as increase in net assets without donor restrictions.

CONTRIBUTED SERVICES

Contributions of goods and services are recognized if the goods or services received (a) create or enhance nonfinancial assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Such donations are recorded as revenue at their estimated fair value at the date of donation. For the years ended June 30, 2022 and 2021, approximately \$6,176 and \$4,546 has been reflected in the financial statements for donated services, respectively.

IN-KIND CONTRIBUTIONS

In-kind contributions as of June 30, 2022 and 2021 of \$11,528 and \$8,453, respectively, consist mostly of construction materials, land, and contributed services and are recorded based on their estimated value on the date of the receipt. No amounts have been reflected in the financial statements for donated labor by unskilled volunteers, as no objective basis is available to measure the value of such services; however, a substantial number of volunteers have donated significant amounts of their time to Habitat's program services.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021

FORGIVABLE MORTGAGES

Forgivable mortgages consist of noninterest-bearing second and third mortgage loans obtained on Habitat homes. The homeowner is required to sign a second mortgage for the difference between the estimated fair market value of the home and the first mortgage balance as of the transfer date. These mortgages are fully forgiven if the homeowner lives in the home for a certain period of time and complies with all other covenants and restrictions per the deed of the trust. In the event the homeowner does not comply with these restrictions, the mortgage balance will be recognized as income at the time it is collected. Habitat generally does not foresee collection of second mortgages except in the event of sale, refinance, or foreclosure of the home. Habitat recognized no income from the recapture of forgivable second mortgages for the years ended June 30, 2022 and 2021.

TRANSFERS TO HOMEOWNERS

Transfers to homeowners are recorded at the gross first mortgage amount. Noninterest-bearing mortgages have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages, as provided by International. Utilizing the effective interest method, this discount will be recognized as interest income over the term of the mortgage.

RESTORE

Habitat does not inventory the items donated for sale in the ReStore. The fair value of these items are regarded as not determinable within reasonable limits due to major uncertainties about the reliability of the value. Therefore, no adjustment has been made for the value of the items for sale in the ReStore at June 30, 2022 and 2021. ReStore sales are recognized as revenue at the time merchandise is transferred to the customer as performance obligations are satisfied at a point in time. There are no financing components as payment is received at the time of sale. Sales returns have not been significant and ReStore sales do not give rise to significant variable consideration.

FUNCTIONAL EXPENSES

The allocation of the costs of providing Habitat's various programs has been summarized on a functional basis in the accompanying statement of functional expenses. Accordingly, certain indirect costs have been allocated to program services, management and general, and fundraising based on management's estimates of resources devoted to these activities.

INCOME TAXES

Habitat is a nonprofit agency exempt from income tax under Section 501(c)(3) of the Internal Revenue Code. Habitat has been classified under Section 509(a)(2) of the Internal Revenue Code as a Publicly Supported Organization, not a private foundation, and qualifies for the 50% charitable contribution deduction for individual donors. Accordingly, federal income taxes are not provided for in the accompanying financial statements. Habitat did not have unrelated business income during the years ended June 30, 2022 and 2021.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021

Management has determined that there are no uncertain tax positions that would require recognition in the financial statements. If the Organization were to incur an income tax liability in the future, interest on any income tax liability would be reported as interest expense, and penalties on any income tax would be reported as penalties. Management's conclusions regarding uncertain tax positions may be subject to review and adjustment at a later date based on ongoing analysis of tax laws, regulations, and interpretations thereof, as well as other factors. The Organization is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress. The Organization's management believes it is no longer subject to income tax examinations for years prior to the year ended June 30, 2019.

Reclassifications

Certain prior year amounts on the statement of cash flows were reclassified to conform to current year presentation. The reclassification had no effect on the net assets or changes in net assets.

ACCOUNTING STANDARDS NOT YET ADOPTED

In February 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard, which Habitat is not required to adopt until their year ending 2023, is intended to improve financial reporting about leasing transactions by requiring entities that lease assets to recognize on their statement of financial position the assets and liabilities for the rights and obligations created by those leases and to provide additional disclosures regarding the leases. Leases with terms (as defined in the ASU) of twelve months or less are not required to be reflected on an entity's statement of financial position.

Habitat is presently evaluating the effect that this standard will have on future financial statements, including related disclosures.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

3. LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

At June 30, 2022 and 2021, Habitat's financial assets available for general expenditures within one year of the statement of financial position date include the following:

| | 2022 | 2021 |
|---|-------------------|-------------------|
| Cash and cash equivalents | \$ 88,351 | \$ 103,988 |
| Grants receivable | 19,218 | -0- |
| Other receivables | 3,887 | 25,253 |
| Mortgage notes receivable | 357,718 | 314,912 |
| Beneficial interest in assets held by Community Foundation | 34,668 | 42,308 |
| Total financial assets | 503,842 | 486,461 |
| Less amounts unavailable for general expenditures within one year due to: | | |
| Restricted by donors in perpetuity | (34,668) | (42,308) |
| Restricted by donors with purpose restrictions | (18,896) | (10,628) |
| Noncurrent maturities of mortgage notes receivable | (309,405) | (259,760) |
| Total financial assets available to management for general expenditures within one year | <u>\$ 140,873</u> | <u>\$ 173,765</u> |

As part of Habitat's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations become due. Habitat also has a committed line of credit totaling \$30,000, which it could draw upon in the event of an unanticipated liquidity need.

4. MORTGAGE NOTES RECEIVABLE

Mortgage notes are noninterest, 15-year to 35-year term loans for homes sold to low-income families. The unamortized discount is the amount of the reduction necessary to record the notes at present value. Mortgage notes receivable balances as of June 30, 2022 and 2021 are as follows:

| | 2022 | 2021 |
|--------------------------------|-------------------|-------------------|
| Mortgages notes receivable | \$ 811,665 | \$ 825,323 |
| Less unamortized discount | (453,947) | (510,411) |
| Mortgage notes receivable, net | 357,718 | 314,912 |
| Less current portion | (48,313) | (55,152) |
| | <u>\$ 309,405</u> | <u>\$ 259,760</u> |

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION FOR THE YEAR ENDED JUNE 30, 2021

5. LINE OF CREDIT

Habitat maintains a line of credit of \$30,000 with a bank for short-term working capital needs, subject to renewal in August 2025. Interest is paid monthly at *The Wall Street Journal* US Prime Rate plus 2.0% with minimum interest rate of 5.5%. There were no borrowings against the line of credit at June 30, 2022 and 2021.

6. NOTE PAYABLE

During the year ended June 30, 2018, Habitat secured a note payable for \$206,100 from Habitat for Humanity International. The note is secured by certain mortgage receivables. The note is payable in quarterly principal and interest payments of \$6,579, with interest at a fixed rate of 5.00% and a maturity date of December 2027. During the year ended June 30, 2022, Habitat made an additional lump sum payment of principal on this note payable and the quarterly principal and interest was reamortized to \$4,242. The note payable had an outstanding balance of \$80,860 and \$145,273 as of June 30, 2022 and 2021, respectively.

Annual maturities of note payable at June 30, 2022 are as follows:

| <u>Year ending June 30,</u> | <u>Amounts</u> |
|-----------------------------|------------------|
| 2023 | \$ 13,227 |
| 2024 | 13,904 |
| 2025 | 14,615 |
| 2026 | 15,363 |
| 2027 | 16,149 |
| Thereafter | <u>7,602</u> |
| | <u>\$ 80,860</u> |

7. PAYCHECK PROTECTION PROGRAM (PPP) LOAN FORGIVENESS

On April 23, 2020, the Organization received a loan from a financial institution in the amount of \$13,555 under the Paycheck Protection Program established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The Organization received notice on March 22, 2021 that this loan has been fully forgiven. This amount was recorded as Paycheck Protection Program forgiveness income in the statement of activities and changed in net assets during the year ended June 30, 2021.

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JUNE 30, 2022

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8. RESTRICTIONS ON NET ASSETS

Net assets with donor restrictions as of June 30, 2022 and 2021 consist of the following:

| | 2022 | 2021 |
|---|------------------|------------------|
| Beneficial interest in assets held by community foundation (Note 9) | \$ 34,668 | \$ 42,308 |
| Building materials, supplies and other related costs | 10,628 | 10,628 |
| Partner family support | 8,268 | -0- |
| | <u>\$ 53,564</u> | <u>\$ 52,936</u> |

9. BENEFICIAL INTEREST IN ASSETS HELD BY COMMUNITY FOUNDATION

A permanent endowment was created to provide support for Habitat through the long-term growth of an endowment fund. The endowment was established by a \$33,000 transfer from Habitat (along with contributions from other donors) and is held at Community Foundation of Morgan County, Inc. (the Foundation). Distributions from the endowment to Habitat are subject to the spending policies of the Foundation. The Foundation's spending policy is designed to take into account the real spending power of the endowment over time, while balancing the need for consistent spending to support the charitable purposes of the endowment. Based on the governing endowment agreement, the Board of Directors of Habitat may not request additional distributions outside the Foundation's normal spending policy. During the years ended June 30, 2022 and 2021, Habitat received transfers of \$2,828 and \$2,480, respectively, from the endowment, which is included in interest income on the statement of activities. Habitat reports the fair value of an allocated portion of the endowment as beneficial interest in assets held by Community Foundation on the statement of financial position and is considered net assets with donor restrictions in the amount of \$34,668 and \$42,308 as of June 30, 2022 and 2021, respectively. Changes in the value of the endowment are reported as gains or losses in the statement of activities of \$(7,640) and \$7,322 for the years ended June 30, 2022 and 2021, respectively.

10. FAIR VALUE MEASUREMENTS

Fair value is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Accounting standards set a framework for measuring fair value based on a three-tier hierarchy based on the extent to which inputs used in measuring fair value are observable in the market.

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

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Level 1 – Quoted prices in active markets for identical assets or liabilities.

Level 2 – Observable inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices that are not active, or inputs (interest rates, currency exchange rates, commodity rates and yield curves) that are observable or corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3 – Inputs that are not observable in the market and reflect management's judgment about the assumptions that market participants would use in pricing the asset or liability.

Within the fair value hierarchy, the fair value measurement level of the asset or liability is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Beneficial interest in assets held by Community Foundation—Valued, as a practical expedient, at the fair value of Habitat's share of the Foundation's investment pool as of the measurement date, utilizing valuations provided by the investment funds. The Foundation values securities and other financial instruments on a fair value basis of accounting. The beneficial interest in assets held at the Foundation is not redeemable by Habitat as described in Note 9.

The following is a summary of assets held at fair value:

| Description | Markets for Identical Assets (Level 1) | Observable Inputs (Level 2) | Unobservable Inputs (Level 3) | Total |
|--|--|-----------------------------------|-------------------------------------|-----------|
| <u>June 30, 2022</u> | | | | |
| Beneficial interest in assets held at the Community Foundation of Morgan County, Inc. | \$ -0- | \$ -0- | \$ 34,668 | \$ 34,668 |
| <u>June 30, 2021</u> | | | | |
| Beneficial interest in assets held at the Community Foundation of Morgan County, Inc. | \$ -0- | \$ -0- | \$ 42,308 | \$ 42,308 |

The following table represents a reconciliation of the activities for Level 3 assets:

| | |
|---------------------------|------------------|
| Balance at July 1, 2020 | \$ 34,986 |
| Share of allocated gains | <u>7,322</u> |
| Balance at June 30, 2021 | 42,308 |
| Share of allocated losses | <u>(7,640)</u> |
| Balance at June 30, 2022 | <u>\$ 34,668</u> |

HABITAT FOR HUMANITY OF MORGAN COUNTY, INC.

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2022

**WITH SUMMARIZED COMPARATIVE FINANCIAL INFORMATION
FOR THE YEAR ENDED JUNE 30, 2021**

11. CONCENTRATION OF CREDIT RISK AND CONTINGENCIES

Habitat maintains cash and cash equivalents in bank deposit accounts, which, at times, may exceed federally insured limits. Habitat has not experienced any losses in such accounts. Habitat believes it is not exposed to any significant credit risk on cash and cash equivalents.

For the years ended June 30, 2022 and 2021, 14% and 14% of support and revenues were from one (1) and one (1) sources, all respectively. At June 30, 2022, all grants receivable was from one (1) source.

12. SUBSEQUENT EVENTS

In accordance with ASC Topic 855, *Subsequent Events*, Habitat has evaluated subsequent events through October 14, 2022, which is the date these financial statements were available to be issued, and has determined that there are no subsequent events that require disclosure in the financial statements.