

GARLAND COUNTY HABITAT FOR HUMANITY, INC.

Financial Statements

For the Years Ended June 30, 2023 and 2022



PriddyHolifieldAble^{PA}
CPAs & Advisors

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INDEPENDENT AUDITORS' REPORT

Board of Directors
Garland County Habitat for Humanity, Inc.
Hot Springs, Arkansas

Opinion

We have audited the financial statements of Garland County Habitat for Humanity, Inc. ("Habitat"), which comprise the statement of financial position as of June 30, 2023, and the related statements of activities, 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 as of June 30, 2023, and the changes in its net assets 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 Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat 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.

Other Matter

The financial statements of Habitat for the year ended June 30, 2022, were audited by another auditor who expressed an unmodified opinion on those statements on May 4, 2023. We have not performed any additional auditing procedures for the year ended June 30, 2022, and the audited information included in this report is for comparative purposes only.

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's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditors' 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 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'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'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.

North Little Rock, Arkansas
October XX, 2023

GARLAND COUNTY HABITAT FOR HUMANITY, INC.
Statements of Financial Position
June 30, 2023 and 2022

	2023	2022
Assets		
Current Assets:		
Cash and Cash Equivalents	\$ 1,344,085	\$ 811,385
Certificates of Deposit	100,000	-
Current Portion of Mortgages Receivable	299,153	326,416
Other Receivables	6,889	4,581
Prepaid Expenses	18,762	12,754
Total Current Assets	1,768,889	1,155,136
Deposits:		
Deposits	4,500	4,500
Escrow Deposits	5,647	4,662
Total Deposits	10,147	9,162
Property and Equipment:		
Land	301,908	301,908
Buildings and Improvements	1,019,895	981,729
Equipment	13,689	11,119
Furniture and Fixtures	70,849	70,849
Vehicles	106,438	106,438
Less Accumulated Depreciation	(197,344)	(152,708)
Net Property and Equipment	1,315,435	1,319,335
Other Assets:		
Arkansas Community Foundation Endowment	11,523	10,724
Utility Deposits	803	803
Other Real Estate Owned	158,942	60,166
Construction in Progress	105,078	195,675
Land for Development	87,360	16,267
Mortgage Receivables, Less Current Portion	1,556,813	1,657,317
Operating Lease Right of Use Asset	191,572	-
Total Other Assets	2,112,091	1,940,952
 Total Assets	 \$ 5,206,562	 \$ 4,424,585

See Accompanying Notes and Independent Auditors' Report

GARLAND COUNTY HABITAT FOR HUMANITY, INC.
Statements of Financial Position (Continued)
June 30, 2023 and 2022

	2023	2022
Liabilities and Net Assets		
Current Liabilities:		
Accounts Payable	\$ -	\$ 1,500
Property Taxes Payable	3,011	-
Current Portion of Long-term Debt	20,437	19,923
Current Portion of Operating Lease Right of Use Liability	52,755	-
Escrow Deposits	5,647	4,662
Accrued Withholdings	286	-
Accrued Wages and Payroll Taxes	74,992	59,590
Total Current Liabilities	157,128	85,675
Non-current Liabilities:		
Operating Lease Right of Use Liability, Less Current Portion	142,490	-
Notes Payable, Less Current Portion	489,389	510,162
Total Non-current Liabilities	631,879	510,162
Total Liabilities	789,007	595,837
Net Assets:		
With Donor Restriction	11,523	10,724
Without Donor Restriction	4,406,032	3,818,024
Total Net Assets	4,417,555	3,828,748
Total Liabilities and Net Assets	\$ 5,206,562	\$ 4,424,585

See Accompanying Notes and Independent Auditors' Report

GARLAND COUNTY HABITAT FOR HUMANITY, INC.
Statements of Activities and Changes in Net Assets
For the Years Ended June 30, 2023 and 2022

	2023	2022
Change in Net Assets Without Donor Restriction		
Revenues and Support:		
Contributions	\$ 298,692	\$ 190,000
Nonfinancial Contributions	18,369	37,072
Grants	95,225	49,718
Mortgage Discount Amortization	324,812	200,148
Transfer to Homeownership	454,932	245,500
ReStore Sales:		
Hot Springs	499,744	397,421
Hot Springs Village	854,655	694,825
Lake Hamilton	777,509	676,699
Paycheck Protection Program Loan Forgiveness	-	186,172
Other Income	22,767	8,932
Total Revenues and Support	3,346,705	2,686,487
Expenses:		
Program Services	822,019	513,362
ReStore:		
Hot Springs	409,124	463,685
Hot Springs Village	624,342	486,687
Lake Hamilton	576,587	483,882
Management and General	326,625	300,908
Total Expenses	2,758,697	2,248,524
Change in Net Assets Without Donor Restriction	588,008	437,963
Net Assets Without Donor Restriction, Beginning of Year	3,818,024	3,380,061
Net Assets Without Donor Restriction, End of Year	4,406,032	3,818,024
Change in Net Assets With Donor Restriction		
Investment Return, Net	799	(1,366)
Contribution	-	250
Net Assets Released from Restriction - Satisfaction		
of Endowment Restriction	-	-
Total Revenue and Support	799	(1,116)
Change in Net Assets With Donor Restriction	799	(1,116)
Net Assets With Donor Restriction, Beginning of Year	10,724	11,840
Net Assets With Donor Restriction, End of Year	11,523	10,724
Change in Total Net Assets	588,807	436,847
Total Net Assets, Beginning of Year	3,828,748	3,391,901
Total Net Assets, End of Year	\$ 4,417,555	\$ 3,828,748

See Accompanying Notes and Independent Auditors' Report

GARLAND COUNTY HABITAT FOR HUMANITY, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2023

	Program Services	ReStore			Management and Administrative	2023 Total
		Hot Springs	Hot Springs Village	Lake Hamilton		
Accounting and Legal	\$ -	\$ 2,450	\$ 2,450	\$ 2,450	\$ 20,100	\$ 27,450
Advertising	93	10,945	13,645	10,945	2,108	37,736
Allocated Expenses	-	-	-	-	(17,000)	(17,000)
Automotive	7,707	8,894	8,894	8,964	-	34,459
Bank Charges	-	8,996	16,775	15,338	-	41,109
Books, Dues, Subscription	-	809	230	662	30,899	32,600
Contract Labor	-	17,920	18,853	17,141	13,650	67,564
Contribution to HFHI	15,000	-	-	-	-	15,000
Cost of Homes Transferred	489,900	-	-	-	-	489,900
Discounts on Mortgages	242,612	-	-	-	-	242,612
Food and Lodging	-	1,076	1,216	436	318	3,046
Grant Expense	1,939	-	-	-	-	1,939
Interest Expense	-	-	16,892	-	-	16,892
Maintenance and Repairs	4,060	5,704	6,548	1,601	4,637	22,550
Office Supplies	157	8,853	16,957	13,802	1,206	40,975
Other	15,411	1,407	842	1,900	5,629	25,189
Payroll Taxes	-	15,352	26,027	25,502	16,710	83,591
Postage and Freight	-	-	950	-	508	1,458
Printing	896	-	-	-	655	1,551
Purchases for Resale	-	65,438	81,263	47,434	-	194,135
Rent	-	-	-	60,673	-	60,673
Salaries	16,131	198,301	336,027	327,510	221,694	1,099,663
Service Fees	17,539	-	-	-	-	17,539
Taxes and Insurance	8,767	28,054	33,588	13,001	13,621	97,031
Travel	1,023	563	563	563	2,229	4,941
Utilities	-	17,344	24,332	21,485	8,296	71,457
Depreciation	784	17,018	18,290	7,180	1,365	44,637
Total Expenses	\$ 822,019	\$ 409,124	\$ 624,342	\$ 576,587	\$ 326,625	\$ 2,758,697

See Accompanying Notes and Independent Auditors' Report

GARLAND COUNTY HABITAT FOR HUMANITY, INC.
Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services	ReStore			Management and Administrative	2022 Total
		Hot Springs	Hot Springs Village	Lake Hamilton		
Accounting and Legal	\$ 350	\$ 2,780	\$ 4,355	\$ 2,780	\$ 13,473	\$ 23,738
Advertising	80	13,177	13,945	10,300	1,430	38,932
Allocated Expenses	-	-	-	-	(10,000)	(10,000)
Automotive	4,442	7,367	6,868	6,868	-	25,545
Bank Charges	-	6,828	11,904	11,028	-	29,760
Books, Dues, Subscription	-	1,016	457	786	30,598	32,857
Contract Labor	2,475	66,398	39,365	41,190	12,063	161,491
Contribution to HFHI	10,000	-	-	-	-	10,000
Cost of Homes Transferred	305,373	-	-	-	-	305,373
Discounts on Mortgages	130,828	-	-	-	-	130,828
Food and Lodging	-	692	892	819	568	2,971
Grant Expense	4,513	-	-	-	-	4,513
Interest Expense	-	-	8,659	-	-	8,659
Maintenance and Repairs	2,263	6,198	3,023	764	2,602	14,850
Office Supplies	196	7,418	6,246	9,685	2,773	26,318
Other	10,911	776	421	713	2,041	14,862
Payroll Taxes	-	14,381	20,893	19,823	17,988	73,085
Postage and Freight	-	-	-	-	510	510
Printing	2,225	-	-	-	917	3,142
Purchases for Resale	-	30,533	23,340	26,902	-	80,775
Rent	-	61,619	27,354	55,250	-	144,223
Salaries	10,959	188,526	269,035	258,081	201,928	928,529
Service Fees	18,944	-	-	-	-	18,944
Taxes and Insurance	9,319	19,907	14,147	12,146	15,489	71,008
Utilities	-	24,053	23,187	19,043	7,139	73,422
Depreciation	484	12,016	12,596	7,704	1,389	34,189
Total Expenses	\$ 513,362	\$ 463,685	\$ 486,687	\$ 483,882	\$ 300,908	\$ 2,248,524

See Accompanying Notes and Independent Auditors' Report

GARLAND COUNTY HABITAT FOR HUMANITY, INC.
Statements of Cash Flows
For the Years Ended June 30, 2023 and 2022

	<u>2023</u>	<u>2022</u>
Cash Flows from Operating Activities:		
Cash Received from Contributions and Grants	\$ 393,917	\$ 237,771
Cash Received from Collection on Mortgages	488,353	400,702
Cash from ReStore Sales	2,128,333	1,768,945
Other Income	22,767	8,932
Cash Paid to Employees and Suppliers	<u>(2,169,805)</u>	<u>(2,186,135)</u>
Net Cash Provided By Operating Activities	<u>863,565</u>	<u>230,215</u>
Cash Flows from Investing Activities:		
Purchase and Improvements of Property for Resale	(169,869)	-
Purchase of Fixed Assets	<u>(40,737)</u>	<u>(1,219,151)</u>
Net Cash Used In Investing Activities	<u>(210,606)</u>	<u>(1,219,151)</u>
Cash Flows from Financing Activities:		
Proceeds from Issuance of Long-term Debt	-	539,320
Principal Payments on Long-term Debt	<u>(20,259)</u>	<u>(17,368)</u>
Net Cash (Used In)/Provided By Financing Activities	(20,259)	521,952
Net Increase/(Decrease) in Cash and Cash Equivalents	632,700	(466,984)
Cash and Cash Equivalents, Beginning of Year	<u>811,385</u>	<u>1,278,369</u>
Cash and Cash Equivalents, End of Year	<u>\$ 1,444,085</u>	<u>\$ 811,385</u>
Reconciliation of Cash:		
Cash and Cash Equivalents	\$ 1,344,085	\$ 811,385
Certificate of Deposit	<u>100,000</u>	<u>-</u>
Total Cash and Cash Equivalents	<u>\$ 1,444,085</u>	<u>\$ 811,385</u>

See Accompanying Notes and Independent Auditors' Report

GARLAND COUNTY HABITAT FOR HUMANITY, INC.
Statements of Cash Flows (Continued)
For the Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities:		
Increase in Net Assets	\$ 588,807	\$ 436,847
Adjustments to Reconcile Increase in Net Assets to Cash Provided		
By Operating Activities:		
Depreciation	44,637	34,189
Unrealized (Gain)/Loss on Endowment	(799)	1,366
Forgiveness of Debt Income - Paycheck Protection Program	-	(186,172)
Change in Right of Use Operating Lease	3,673	-
(Increase)/Decrease in:		
Mortgages Receivable	127,767	82,414
Other Receivables	(2,308)	3,850
Prepaid Expenses	(6,008)	(2,168)
Deposits	(985)	7,640
Construction in Progress	90,597	(126,861)
Utility Deposits	-	(803)
Increase/(Decrease) in:		
Accounts Payable	(1,500)	-
Property Taxes Payable	3,011	-
Escrow Deposits	985	(3,561)
Unearned Revenue	-	(22,728)
Accrued Wages	15,688	6,452
Contributions Restricted for Investment in Endowment	-	(250)
 Net Cash Provided By Operating Activities	 \$ 863,565	 \$ 230,215

See Accompanying Notes and Independent Auditors' Report

GARLAND COUNTY HABITAT FOR HUMANITY, INC.
Notes to Financial Statements
June 30, 2023 and 2022

1. Nature of Organization and Summary of Significant Accounting Policies

Nature of Organization

Garland County Habitat for Humanity, Inc. ("Habitat") is a non-profit corporation organized for the purpose of providing aid and assistance to low-income families in need of adequate housing through Christian housing ministry programs. These programs are designed to stimulate new home construction and rehabilitation of existing housing and to develop a spiritual community of cooperation among the volunteers, supporters, beneficiaries and outside observers of Garland County Habitat for Humanity, Inc.

Habitat builds market-quality homes using volunteer labor and sells each home, with no down payment and a 20 to 25 year non-interest-bearing mortgage, to qualified low-income families. The home is also subject to a silent, second mortgage representing the difference between the market value of the home and the first mortgage charged to the buyer. The second mortgage is due only on the homeowner's sale of the home if the home is sold within 10 years of closing.

Habitat also operates three ReStores where merchandise is donated and sold to the public. Garland County Habitat for Humanity, Inc. is an affiliate of Habitat for Humanity International, Inc. Proceeds from the ReStores fund Habitat's mission of providing quality, affordable housing to low-income families.

Basis of Accounting and Presentation

The accompanying financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America ("GAAP").

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

Net assets with donor restriction – net assets subject to donor-imposed stipulations that will be met by actions of Habitat and/or passage of time. Certain restrictions may need to be maintained in perpetuity.

Net assets without donor restriction – net assets not subject to donor-imposed stipulations.

Use of Estimates

The preparation of financial statements in conformity with GAAP 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 reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Changes in Accounting Principles

In February 2016, the FASB issued Accounting Standards Codification (“ASC”) 2016-02, *Leases* (Topic 842). The standard requires lessees to recognize the assets and liabilities that arise from leases in the balance sheet, while ensuring lessors provided increased transparency on lease income, formerly disclosed as rent. Additionally, in July 2018, the FASB issued ASC 2018-11, *Leases (Topic 842) – Targeted Improvement*, which among other things, provides an additional transition method that would allow entities to not apply the guidance in ASC 2016-02 in the comparative periods presented in the financial statements and instead recognize a cumulative-effect adjustment to the opening balance of retained earnings in the period of adoption.

Habitat elected to implement ASC 2016-02 and its related amendments as of July 1, 2022, which resulted in recognition of an operating lease right of use asset totaling \$191,572 and an operating lease liability totaling \$195,245 on June 30, 2023. Habitat also elected to adopt the transition relief provisions of ASC 2018-11 and recorded the impact of adoption as of July 1, 2022, without restating any prior-amounts or disclosures. Additional disclosures related to leases can be found in Note 5.

Cash and Cash Equivalents

Cash and cash equivalents consist of demand deposits held at several regional banks. Cash equivalents are highly liquid investments which have remaining maturities of three months or less when purchased. Habitat had no cash equivalents as of June 30, 2023 and 2022.

Concentration of Credit Risk

Habitat’s demand deposits are federally insured up to \$250,000 by the Federal Deposit Insurance Corporation (“FDIC”). Habitat had no cash or cash equivalent balances over FDIC limits on June 30, 2023; however, the organization had \$31,986 in excess of FDIC limits on June 30, 2022. Habitat has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on its cash and cash equivalents.

Mortgages Receivable

Mortgages receivable are non-interest bearing and exchanged for homes to low and moderate-income families, fulfilling Habitat’s exempt purposes. The notes are recorded at their present value based on the prevailing market rate of interest at the time the mortgage was originated. Prevailing market rates are determined annually based on current mortgage interest rates. The difference between the face amount of the note and its present value is accounted for as a discount and recorded as a reduction in the receivable. The resulting discount is amortized over the life of the mortgage using the interest method. Amortization of the discount is recognized as interest income in the Statements of Activities. See Note 3.

Fixed Assets

Capital expenditures over \$2,500 for property and equipment are capitalized and presented at cost. Depreciation is computed on the straight-line method over the estimated useful lives of the assets, which range from five to thirty-nine years. Donated assets are capitalized at their approximate fair value at the date of the gift.

Construction in Progress

All direct material, labor and equipment costs and indirect costs related to home construction, such as indirect labor, supplies and tool costs, are recorded as construction in progress as they are incurred. Land costs included in construction in progress are stated at fair value on the date of contribution.

Revenue Recognition

Public support and contributions are defined as voluntary, non-reciprocal transfers that are recognized as support when received. Contributions that are restricted by the donor for future periods or for specific purposes are reported as increases in net assets with donor restriction. When a restriction is fulfilled (that is, when a stipulated time restriction ends or the purpose of restriction is accomplished), net assets with donor restriction are reclassified and reported in the Statements of Activities and Changes in Net Assets as net assets without donor restriction; however, if a restriction is fulfilled in the same year in which the contribution is received, the support is reported as net assets without donor restriction.

Habitat receives funding from several governmental and private financial assistance programs that supplement its traditional funding sources. Revenues are recognized as qualifying expenses are incurred as defined in the underlying agreement.

Habitat recognizes revenue from home sales when a closing occurs. A closing is considered to occur, and performance obligation satisfied when title, possession, and other attributes of ownership have been transferred to the buyer; and Habitat is not obligated to perform significant activities after the sale. Revenue from the sale of homes is recorded on the Statements of Activities and Changes in Net Assets when the property transfers to homeowners. Transfers to homeowners are recorded at the gross mortgage amount.

Habitat ReStore sales are recognized as revenue at the time merchandise is transferred to the customer, the single performance obligation. Historically, sales returns have not been significant.

Donated Goods and Services

Donated building material and specialized services used in the construction of homes and materials resold for the years ended June 30, 2023 and 2022, were as follows:

	<u>2023</u>	<u>2022</u>
Building Materials	\$ 16,115	\$ 37,072
Contractor Services	2,254	-
ReStore Contributed Items	<u>1,937,773</u>	<u>1,688,171</u>
Total Donated Goods and Services	<u>\$ 1,956,142</u>	<u>\$ 1,725,243</u>

Habitat received building materials and specialized services from local businesses and contractors supporting Habitat's construction in progress. The goods and services are reported at their estimated fair value based upon material and contractor costs in the greater Hot Springs, Arkansas area. Donated merchandise resold in Habitat's ReStore locations are recorded at fair market value where objectively measurable.

Many volunteers make significant contributions of their time to Habitat's program and supporting services. The value of this contributed time is not reflected in the financial statements since it does not require a specialized skill. However, certain other contributed services that require specialized skills, provided by individuals possessing those skills, which would otherwise need to be purchased if not provided by donation, are recognized as revenue and expense.

Advertising and Promotional Costs

All advertising and promotional costs are expensed when incurred. Advertising expenses for the years ended June 30, 2023 and 2022, were \$37,736 and \$38,931, respectively.

Income Taxes and Uncertain Tax Positions

Habitat is organized as a not-for-profit organization under the laws of the State of Arkansas and is tax-exempt under Section 501(c)(3) of the Internal Revenue Code and corresponding Arkansas provisions. Accordingly, no provision for income taxes is reflected in the accompanying financial statements. Habitat follows the guidance of ASC 740, *Income Taxes*, related to uncertainties in income taxes, which prescribes a threshold of more likely than not for recognition and derecognition of tax positions taken or expected to be taken in a tax return. There are no such uncertain tax positions for the organization for the years ended June 30, 2023 and 2022. Habitat is not currently under examination by any taxing jurisdiction. Habitat's federal returns are generally open for examination for three years following the date filed.

Functional Allocation of Expenses

The costs of providing program and other activities have been summarized on a functional basis in the statements of activities and functional expenses. Accordingly, certain costs have been allocated among program services and supporting services benefitted. Such allocations are determined by management on an equitable basis. The expenses that are allocated include the following:

<u>Expenses</u>	<u>Method of Allocation</u>
Salaries and Benefits	Time and Effort
Advertising	Time and Effort
Other	Time and Effort
Automobile	Full Time Equivalent
Maintenance and Repairs	Full Time Equivalent
Taxes and Insurance	Full Time Equivalent

2. Deposits

An escrow account is established for each new mortgage, and an additional amount is due with the monthly mortgage payment by the homeowners for property taxes and insurance. These escrowed amounts are maintained in a separate bank account. Habitat pays the required insurance and property taxes, and any excess is returned annually to the homeowner. At June 30, 2023 and 2022, the balances in escrow bank accounts were \$5,647 and \$4,662, respectively. Habitat contracted with a third party for mortgage collection services, that service provider will also collect escrow amounts from the homeowners and pay property taxes and insurance for loans closed in the future.

3. Mortgages Receivable

Mortgages receivable consist of non-interest-bearing mortgages that are secured by real estate and payable in monthly installments. The mortgages have an original maturity of 20 to 25 years. These mortgages have been discounted at rates ranging from 7.23% to 8.14% based on the prevailing market rates at the inception of the mortgage. On June 30, 2023 and 2022, outstanding mortgages consisted of the following:

	June 30, 2023 <u>(99 Mortgages)</u>	June 30, 2022 <u>(111 Mortgages)</u>
Mortgages Outstanding	\$ 3,774,214	\$ 3,984,182
Less Amortized Discount	<u>(1,918,248)</u>	<u>(2,000,449)</u>
Total	<u>\$ 1,855,966</u>	<u>\$ 1,983,733</u>

Habitat occasionally has loans that are past due on payments. The mortgages are secured by the property. Therefore, Habitat has not recorded an allowance against the non-performing loans.

The scheduled collection of mortgage receivables are 2024 - \$299,153; 2025 - \$296,834; 2026 - \$287,708; 2027 - \$277,449; 2028 - \$264,090, and \$2,348,980 thereafter.

4. Notes Payable

Notes payable consisted of the following on June 30:

	<u>2023</u>	<u>2022</u>
Note payable due in monthly installments of \$152 including interest; collateralized by real estate; matured on September 23, 2022.	\$ -	\$ 455
Note payable due in monthly installments of \$3,059 including interest of 3.25%; collateralized by real estate; maturing December 28, 2041.	<u>509,826</u>	<u>529,630</u>
Total Debt	509,826	530,085
Less Current Portion of Long-term Debt	<u>(20,437)</u>	<u>(19,923)</u>
Total Long-term Debt	<u>\$ 489,389</u>	<u>\$ 510,162</u>

The scheduled maturities of the debt payable are 2024 - \$20,437; 2025 - \$21,111; 2026 - \$21,807; 2027 - \$22,527; 2028 - \$23,270; and \$400,674 thereafter.

Habitat was approved for and received a Paycheck Protection Program loan on March 19, 2021. The loan and accrued interest are forgivable after 24 weeks as long as the proceeds are used for eligible purposes including payroll, benefits, rent and utility and the entity maintains its payroll levels. On February 22, 2022, Habitat received full forgiveness of the loan. The \$186,172 of forgiven debt is recognized as income in the Statement of Activities and Changes in Net Assets for the year ended June 30, 2022.

5. Leases

Habitat leases retail space for its Lake Hamilton ReStore store. This lease has an operating lease right-of-use asset and operating lease right of use liability of \$191,572 and \$195,245, respectively, for the year ended June 30, 2023. The 10-year renewable lease commenced February 1, 2017, at \$4,500 monthly through January 31, 2022, where it increased to \$4,750 for the remainder of the lease. The lessor allows Habitat to sublet the property with approval.

Lease cost for the year ended June 30, 2023, is as follows:

Operating Lease Costs	<u>\$ 57,000</u>
Total Lease Costs	<u>\$ 57,000</u>

The following table displays the weighted average term and discount rates of the operating lease outstanding as of June 30, 2023.

Weighted-average Term (Years)	3.58
Weighted-average Discount Rate	2.48%

Management chooses to utilize the risk-free rate on commencement day of the lease as its discount rate.

The following table displays the undiscounted cash flows due related to the operating leases as of June 30, 2023, along with a reconciliation to the discounted amount recorded on the June 30, 2023, Statement of Financial Position.

Undiscounted Cash Flows Due Within:	
2024	\$ 57,000
2025	57,000
2026	57,000
2027	<u>33,250</u>
Total Undiscounted Cash Flows	204,250
Impact of Present Value Discount	<u>(9,005)</u>
Amount Reported on the Statement of Financial Position	<u>\$ 195,245</u>

6. Related Party Transactions

Habitat is encouraged by the affiliate covenant with Habitat for Humanity International, Inc. to give a minimum of 10% of its cash contributions for its international work. For the years ended June 30, 2023 and 2022, contributions of \$15,000 and \$10,000, respectively, were paid.

7. Arkansas Community Foundation – Endowment Fund

On August 3, 2020, Habitat entered into an agreement with the Arkansas Community Foundation, Inc.'s Endowment Fund. The agreement with Arkansas Community Foundation, Inc. (the "Foundation") irrevocably gives, delivers, transfers, and assigns to Arkansas Community Foundation, Inc. all its rights, title and interest in the Endowment Fund to be held and administered for the charitable purpose of providing support to Habitat. The endowment fund is accounted for in accordance with ASC 958, *Not-for-Profit Entities*. In accordance with ASC 958,

the endowment fund is considered a reciprocal transfer of funds since Habitat is both the donor and beneficiary of the endowment, even though the variance power has been granted to Arkansas Community Foundation, Inc. and the Foundation is also the legal owner of the fund under the terms of the endowment agreement. The fund may expense that portion of its total assets as permitted by the spend rate policy.

8. Fair Value Measurement

Accounting standards define fair value as the exchange price that would be received to sell an asset or paid to transfer a liability (exit price) in an orderly transaction between market participants at the measurement date. ASC 820, *Fair Value Measurement and Disclosure*, provides the framework for measuring fair value that includes a hierarchy that categorizes and prioritizes the sources used to measure and disclose fair value. The three levels of input that may be used to measure fair values are described as follows:

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

Level 2 — Observed inputs other than Level 1 prices such as quoted prices for similar assets or liabilities, quoted prices in inactive markets, or other inputs that are observable or can be corroborated by observable market data.

Level 3 — Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Habitat assesses the level of the investment at each measurement date, and transfers between levels are recognized on the actual date of the event or change in circumstances that caused the transfer.

The following table sets forth by level, with the fair value hierarchy, Habitat's recurring assets at fair value as of June 30:

2023	Level 1	Level 2	Level 3	Total
Arkansas Community Foundation Endowment	\$ -	\$ -	\$ 11,523	\$ 11,523
Total	\$ -	\$ -	\$ 11,523	\$ 11,523
2022	Level 1	Level 2	Level 3	Total
Arkansas Community Foundation Endowment	\$ -	\$ -	\$ 10,724	\$ 10,724
Total	\$ -	\$ -	\$ 10,724	\$ 10,724

The fair value of Habitat’s beneficial interest in assets held by others is based on the fair value of funds invested as reported by the Arkansas Community Foundation. These are considered Level 3 investments.

The following reconciliation of the beginning and ending balance of assets measured at fair value on a recurring basis using significant unobserved inputs (Level 3) for the years ended June 30, are as follows:

	<u>2023</u>	<u>2022</u>
Balance at Beginning of Year	\$ 10,724	\$ 11,840
Purchases/Contributions	-	250
Investment Return, Net	<u>799</u>	<u>(1,366)</u>
Balance at End of Year	<u>\$ 11,523</u>	<u>\$ 10,724</u>

The summary of changes in fair value of Level 3 assets has been prepared to reflect the activity in the same categories as those provided by the Arkansas Community Foundation, Inc. Net investment performance includes realized and unrealized gain/(losses) on investments, investment income, and administrative fees and is included in change in value of beneficial interest in assets held by others in the accompanying Statements of Activities.

9. Liquidity and Availability of Resources

Financial assets available for general expenditure; that is, without donor or other restrictions limiting their use, within one year of the date of the Statement of Financial Position comprise the following:

Financial Assets, at Year-End	\$ 1,768,889
Less Restricted Net Assets	<u>(11,523)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures Within One Year	<u>\$ 1,757,366</u>

Habitat is substantially supported by contributions, grants, home sales, and sales of merchandise in their ReStore locations. 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 come due.

10. Subsequent Events

Management has evaluated all subsequent events for potential recognition and disclosure through October XX 2023, the date these financial statements were available to be issued.