

**HABITAT FOR HUMANITY
OF EAST JEFFERSON COUNTY**

Audited Financial Statements

June 30, 2022 and 2021

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

Audited Financial Statements

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Independent Auditor's Report

Board of Directors
Habitat for Humanity of East Jefferson County
Port Townsend, Washington

Report on the Financial Statements

Opinion

We have audited the financial statements of Habitat for Humanity of East Jefferson County (a nonprofit organization) ("Habitat"), which comprise the statements of financial position as of June 30, 2022 and 2021, 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 accompanying financial statements present fairly, in all material respects, the financial position of Habitat as of June 30, 2022 and 2021, 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 ("U.S. GAAP").

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America ("U.S. 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 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 U.S. GAAP, 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.

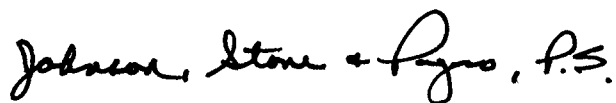
Auditor's Responsibilities for the Audit of the Financial Statements

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 U.S. 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 U.S. 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.



JOHNSON, STONE & PAGANO, P.S.

October 25, 2022

AUDITED FINANCIAL STATEMENTS

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>ASSETS</u>		
CURRENT ASSETS		
Cash	\$ 278,679	\$ 792,105
Grants and other receivables	55,639	29,130
Contributions receivable, current portion	3,500	24,559
Inventory held for sale - Furniture and More Stores	48,857	41,074
Inventory - general		4,614
Prepaid expenses	6,635	8,770
Mortgages receivable, current portion	<u>57,450</u>	<u>62,201</u>
Total Current Assets	450,760	962,453
OTHER ASSETS		
Restricted cash	845,492	961,434
Contributions receivable, net of current portion	1,000	4,500
Mortgages receivable, net of discount and current portion	365,031	424,980
Construction in progress	1,227,411	386,539
Land held for development	2,763,102	1,120,018
Deposits and other	979	11,062
Property, furniture and equipment, net	<u>1,154,221</u>	<u>653,100</u>
Total Other Assets	<u>6,357,236</u>	<u>3,561,633</u>
TOTAL ASSETS	<u>\$ 6,807,996</u>	<u>\$ 4,524,086</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF FINANCIAL POSITION (Continued)

June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
<u>LIABILITIES AND NET ASSETS</u>		
CURRENT LIABILITIES		
Accounts payable	\$ 57,481	\$ 68,703
Accrued expenses	76,935	56,562
Homeowner reserve accounts	6,153	2,653
Long-term debt, current portion	<u>170,841</u>	<u>35,747</u>
Total Current Liabilities	311,410	163,665
LONG-TERM DEBT , net of debt issuance cost, less current portion	<u>594,625</u>	<u>418,556</u>
Total Liabilities	906,035	582,221
NET ASSETS		
Without donor restrictions - undesignated	5,032,869	2,997,053
Without donor restrictions - board-designated	<u>331,042</u>	<u>527,632</u>
	5,363,911	3,524,685
With donor restrictions	<u>538,050</u>	<u>417,180</u>
Total Net Assets	<u>5,901,961</u>	<u>3,941,865</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 6,807,996</u>	<u>\$ 4,524,086</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF ACTIVITIES

Year Ended June 30, 2022

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Contributions	\$ 1,613,006	\$ 850,296	\$ 2,463,302
Grants	151,148	500,000	651,148
In-kind contributions	640,576		640,576
Sales to homeowners	1,024,212		1,024,212
NRI home repair revenue	6,600		6,600
Store revenue	439,716		439,716
Other income	2,952		2,952
Mortgage loan discount amortization	90,251		90,251
Interest income	1,238		1,238
Gain on sale of assets	23,250		23,250
Net assets released from restrictions	<u>1,229,426</u>	<u>(1,229,426)</u>	
Total Revenues and Support	5,222,375	120,870	5,343,245
EXPENSES			
Program expenses	2,937,408		2,937,408
Management and administration	249,405		249,405
Fundraising	<u>196,336</u>		<u>196,336</u>
Total Expenses	<u>3,383,149</u>		<u>3,383,149</u>
INCREASE IN NET ASSETS	1,839,226	120,870	1,960,096
Net Assets at Beginning of Year	<u>3,524,685</u>	<u>417,180</u>	<u>3,941,865</u>
NET ASSETS AT END OF YEAR	<u>\$ 5,363,911</u>	<u>\$ 538,050</u>	<u>\$ 5,901,961</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF ACTIVITIES (Continued)

Year Ended June 30, 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
REVENUES AND SUPPORT			
Contributions	\$ 380,361	\$ 427,551	\$ 807,912
Grants	350,191	147,000	497,191
In-kind contributions	302,038		302,038
Sales to homeowners	849,664		849,664
NRI home repair revenue	21,656		21,656
Store revenue	277,752		277,752
Other income	1,475		1,475
Mortgage loan discount amortization	36,096		36,096
Interest income	3,385		3,385
Net assets released from restrictions	<u>532,018</u>	<u>(532,018)</u>	
Total Revenues and Support	2,754,636	42,533	2,797,169
EXPENSES			
Program expenses	1,875,787		1,875,787
Management and administration	205,172		205,172
Fundraising	<u>148,728</u>		<u>148,728</u>
Total Expenses	<u>2,229,687</u>		<u>2,229,687</u>
INCREASE IN NET ASSETS	524,949	42,533	567,482
Net Assets at Beginning of Year	<u>2,999,736</u>	<u>374,647</u>	<u>3,374,383</u>
NET ASSETS AT END OF YEAR	<u>\$ 3,524,685</u>	<u>\$ 417,180</u>	<u>\$ 3,941,865</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022 with Comparative Totals for 2021

	Program Expenses			Supporting Expenses			Total Expenses	
	Program Services	Stores	Total Program Expenses	Management and Administration	Fundraising	Total Supporting Expenses	2022	2021
	Program and home building costs	\$ 1,351,340		\$ 1,351,340				\$ 1,351,340
Salaries and wages	288,780	\$ 213,224	502,004	\$ 143,105	\$ 105,074	\$ 248,179	750,183	580,552
Payroll taxes and benefits	88,815	55,987	144,802	34,983	27,704	62,687	207,489	142,794
Cost of goods sold		439,716	439,716				439,716	277,781
Professional fees	69,910	3,000	72,910	29,303	4,075	33,378	106,288	43,455
Supplies and equipment	19,710	6,860	26,570	5,877	2,741	8,618	35,188	17,830
Telephone	9,676	2,375	12,051	587	1,144	1,731	13,782	8,852
Information technology	13,907	3,254	17,161	9,205	5,809	15,014	32,175	32,216
Postage and shipping	2,211		2,211	712	595	1,307	3,518	4,056
Facilities	19,326	42,015	61,341	3,272	4,072	7,344	68,685	51,320
Equipment rental and maintenance	1,280	98	1,378	325	427	752	2,130	2,199
Printing and publications	9,861	5,220	15,081	1,992	13,420	15,412	30,493	15,431
Travel and vehicle	6,115	32,088	38,203	738	213	951	39,154	9,792
Conferences, conventions and meetings	14,811	1,261	16,072	319	1,247	1,566	17,638	3,600
Volunteers	30,334	2,778	33,112	262	1,119	1,381	34,493	12,207
Dues, fees, licenses and permits	15,307	10,521	25,828		25,065	25,065	50,893	20,882
Taxes	10,153	5,712	15,865	719		719	16,584	7,066
Interest	21,841	9,838	31,679	1,607	135	1,742	33,421	22,861
Homeowner services	5,667		5,667				5,667	16,390
Tithes	75,991		75,991				75,991	61,326
Insurance	4,241		4,241	14,864		14,864	19,105	16,604
Community and public relations	399	1,249	1,648	72	2,231	2,303	3,951	3,406
Miscellaneous	7,337		7,337	500		500	7,837	
Depreciation and amortization	19,340	15,860	35,200	963	1,265	2,228	37,428	27,955
TOTAL	\$ 2,086,352	\$ 851,056	\$ 2,937,408	\$ 249,405	\$ 196,336	\$ 445,741	\$ 3,383,149	\$ 2,229,687

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

Year Ended June 30, 2021

	Program Expenses			Supporting Expenses			Total Expenses 2021
	Program Services	Stores	Total Program Expenses	Management and Administration	Fundraising	Total Supporting Expenses	
Program and home building costs	\$ 851,112		\$ 851,112				\$ 851,112
Salaries and wages	253,025	\$ 112,371	365,396	\$ 119,960	\$ 95,196	\$ 215,156	580,552
Payroll taxes and benefits	63,264	28,177	91,441	26,886	24,467	51,353	142,794
Cost of goods sold		277,781	277,781				277,781
Professional fees	17,748		17,748	24,432	1,275	25,707	43,455
Supplies and equipment	9,658	5,715	15,373	1,585	872	2,457	17,830
Telephone	4,685	3,114	7,799	386	667	1,053	8,852
Information technology	15,091	3,193	18,284	7,412	6,520	13,932	32,216
Postage and shipping	1,455	8	1,463	51	2,542	2,593	4,056
Facilities	10,329	36,348	46,677	3,522	1,121	4,643	51,320
Equipment rental and maintenance	1,606		1,606	426	167	593	2,199
Printing and publications	5,532	463	5,995	1,790	7,646	9,436	15,431
Travel and vehicle	5,641	3,856	9,497	101	194	295	9,792
Conferences, conventions and meetings	2,390	760	3,150	225	225	450	3,600
Volunteers	11,558	614	12,172		35	35	12,207
Dues, fees, licenses and permits	10,812	5,301	16,113	48	4,721	4,769	20,882
Taxes	4,439	1,657	6,096	970		970	7,066
Interest	18,183	1,858	20,041	2,677	143	2,820	22,861
Homeowner services	16,390		16,390				16,390
Tithes	61,326		61,326				61,326
Insurance	3,217		3,217	13,387		13,387	16,604
Community and public relations	1,365	498	1,863	143	1,400	1,543	3,406
Depreciation and amortization	15,265	9,982	25,247	1,171	1,537	2,708	27,955
TOTAL	\$ 1,384,091	\$ 491,696	\$ 1,875,787	\$ 205,172	\$ 148,728	\$ 353,900	\$ 2,229,687

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in net assets	\$ 1,960,096	\$ 567,482
Adjustments to reconcile increase in net assets to net cash provided (used) by operating activities		
Forgiveness of long-term debt		(124,724)
Depreciation and amortization	37,428	27,955
Gain on sale of assets	(23,250)	
In-kind contribution of land held for investment	(105,000)	
Mortgage loan discount amortization	(90,251)	(36,096)
Noncash change of inventory held-for-sale	(7,783)	17,171
Net change in operating assets and liabilities	<u>(2,441,989)</u>	<u>(34,306)</u>
Net Cash Provided (Used) by Operating Activities	(670,749)	417,482
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from mortgages receivable	154,951	72,656
Proceeds from sale of assets	113,816	
Purchases of property, furniture and equipment	<u>(178,549)</u>	<u>(5,502)</u>
Net Cash Provided by Investing Activities	90,218	67,154
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of long-term debt	<u>(48,837)</u>	<u>(23,860)</u>
Net Cash Used by Financing Activities	<u>(48,837)</u>	<u>(23,860)</u>
NET INCREASE (DECREASE) IN CASH	(629,368)	460,776
Cash at Beginning of Year	<u>1,753,539</u>	<u>1,292,763</u>
CASH AT END OF YEAR	\$ <u>1,124,171</u>	\$ <u>1,753,539</u>
COMPONENTS OF CASH		
Cash	\$ 278,679	\$ 792,105
Restricted cash	<u>845,492</u>	<u>961,434</u>
	\$ <u>1,124,171</u>	\$ <u>1,753,539</u>

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

STATEMENTS OF CASH FLOWS (Continued)

Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
COMPONENTS OF NET CHANGE IN OPERATING ASSETS AND LIABILITIES		
(Increase) decrease in assets		
Grants and other receivables	\$ (26,509)	\$ (12,430)
Contributions receivable	24,559	52,527
Inventory - general	4,614	4,625
Prepaid expenses	2,135	(7,690)
Construction in progress	(840,872)	268,437
Land held for development	(1,628,650)	(408,887)
Deposits and other	10,083	(9,463)
Increase (decrease) in liabilities		
Accounts payable	(11,222)	55,383
Accrued expenses	20,373	23,042
Homeowner reserve accounts	3,500	150
	<u> </u>	<u> </u>
Net Change in Operating Assets and Liabilities	\$ <u>(2,441,989)</u>	\$ <u>(34,306)</u>
 SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION		
Cash paid during the year for interest	\$ <u>33,421</u>	\$ <u>22,861</u>
 NONCASH INVESTING AND FINANCING ACTIVITIES		
Financed purchase of building	\$ <u>360,000</u>	

The accompanying notes are an integral part of these financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Habitat for Humanity of East Jefferson County ("Habitat"), a Washington nonprofit organization, was formed in February 1998. It is an affiliate of Habitat for Humanity International, Inc. ("Habitat International"). Although Habitat International assists with information resources, publications and training, Habitat operates independent of Habitat International, and a local board of directors is directly responsible for its operations. Seeking to put God's love into action, Habitat brings people together to build homes, communities and hope. The ultimate goal is that everyone in East Jefferson County will have a decent place to live.

Habitat builds and repairs houses using primarily volunteer labor and purchased and donated materials, selling the houses to qualified, low-income homebuyers. Homebuyers and repair clients finance the work through the USDA 502 and 504 direct loan programs with subsidized-interest mortgages and loans; Habitat finances the "gap" (between what it costs to build or repair the home and what the owner can afford) with the use of no-interest mortgages. Prospective homeowners and repair clients must demonstrate a need for housing and the ability to repay an affordable loan, as well as participate in "sweat equity" toward the construction or repair of the homes. As of June 30, 2022, Habitat had five homes under construction.

During the fiscal years ended June 30, 2022 and 2021, Habitat sold 5 and 3 homes, respectively. In its history, Habitat has built 55 homes, recycled 10, rehabilitated 1, sold 66 and repaired 38. During the fiscal year ended June 30, 2022, Habitat purchased land that will support the construction of more than 120 homes, started its first multi-family development, and adopted a new model that will ensure homes remain permanently affordable to future buyers.

Habitat owns and operates a Habitat Store (the "Store") in Port Townsend, Washington, which accepts donations of appliances and household items. The donated items are sold to the public, and Store proceeds support house construction and overhead expenses of Habitat.

Basis of Accounting

The financial statements of Habitat have been prepared on the accrual basis of accounting and, accordingly, reflect significant receivables, payables and other liabilities.

Basis of Presentation

Habitat reports information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Net Assets without Donor Restrictions

Net assets that are not subject to donor-imposed stipulations.

Net Assets with Donor Restrictions

Net assets subject to donor-imposed stipulations that can be fulfilled by actions of Habitat pursuant to those stipulations, or that expire by the passage of time, and net assets subject to donor-imposed stipulations that are to be maintained in perpetuity. Habitat did not have any net assets restricted to be maintained in perpetuity at June 30, 2022 or 2021.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash

Cash consists of checking, savings and money market accounts.

Support and Revenue Recognition

Contributions, including unconditional promises to give, are recognized in the period received. Conditional promises to give, if applicable, are not recognized until they become unconditional, that is, when the conditions on which they depend are substantially met. If material, contributions to be received after one year are discounted at an appropriate discount rate if material and are reported as increases in net assets with donor restrictions. Contributions of assets other than cash are recorded at their estimated fair value when contributed.

Contributions, including non-cash contributions, subject to donor-imposed stipulations that are met in the same reporting period are reported as increases in net assets without donor restrictions in the statements of activities. Contributions with donor-imposed restrictions which will be met in a future period are reported as increases in net assets with donor restrictions until such restrictions are met.

Grants having the existence of a contribution but lacking in both existence of a barrier and the right of return to the resource provider, are classified as restricted contribution revenue until conditions of the award are met. Conditional grant awards, having both the existence of a barrier and right of return to the resource provider, are classified as refundable advances when received as a cash advance, and are recognized as revenue when the awards are expended for the purpose of the grant or other conditions are satisfied. Management considers all contracts and grants receivable to be fully collectible; accordingly, no allowance for doubtful accounts is recorded. If an amount becomes uncollectible, it will be charged to operations when that determination is made.

Revenue from program service fees, store revenues and all other exchange transactions are recognized when earned. Payments received in advance of Habitat fulfilling its obligations are deferred to the applicable period in which the related services are performed. Revenue is recorded when amounts to be received in exchange for services is determinable and collection is reasonably assured.

Revenue from sales to homeowners are recognized at the point in time when closing conditions are met to deliver a completed home to a qualified buyer, the sale is recorded as revenue and the cost of the home is recorded as program services expense on the accompanying statement of activities. Currently buyers obtain loans from banks with whom Habitat works to facilitate the arrangement of mortgages for the home buyers. In prior years, Habitat financed the purchase of homes by offering no-interest loans to qualified, low-income homeowners secured by a deed of trust on the related property. At the time of sale, Habitat recognized revenue and the related mortgages receivable. In accordance with generally accepted accounting principles, revenue is recognized by discounting the future payments to be received from the homeowners using an interest rate based on term loans collateralized by mortgages receivable.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventory Held for Sale - Habitat Store

Habitat Store (the "Store") inventory includes furniture, household items and other materials used for resale and operations at the Store. The value of donated inventory items is determined by management using net sales of the year, based on an estimated inventory turnover rate of nine and four-and-a-quarter times annually for the fiscal years ended June 30, 2022 and 2021, respectively. Inventory held for sale was estimated to be \$48,857 and \$41,074 at June 30, 2022 and 2021, respectively.

Inventory - General

Inventory is valued at the lower of cost (determined on a first-in, first-out basis) or net realizable value. Inventory consists of construction materials. Donated inventory is recorded at its estimated fair value on the date of receipt.

Property, Furniture and Equipment

Assets are carried at cost, if purchased, or fair value at the time of donation, if donated. It is Habitat's policy to capitalize property, furniture and equipment over \$2,500 that has a useful life greater than one year. Depreciation is computed using the straight-line method over the estimated useful lives of assets, ranging from 5 to 39 years.

Construction in Progress and Land Held for Development

Construction in Progress

Costs of construction in progress consist of a budgeted amount for the land transferred from land held for development to the construction account and direct home construction costs unless it is determined to be impaired. In the event the construction in progress is determined to be impaired, it is written down to fair value. Habitat reviews construction in progress for impairment during each reporting period on a lot-by-lot basis. Accounting principles generally accepted in the United States of America ("U.S. GAAP") require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

Land Held for Development

Land purchased for homes is recorded at cost unless it is determined to be impaired, in which case the impaired land is written down to fair value. Donated land is recorded at the property's fair value. All related carrying costs for these properties, such as maintenance, any assessments and real estate taxes, are capitalized into the cost of the properties. Habitat reviews land for impairment during each reporting period on a lot-by-lot basis. U.S. GAAP require that if the undiscounted cash flows expected to be generated by an asset are less than its carrying amount, an impairment charge should be recorded to write down the carrying amount of such asset to its fair value.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fair Value Measurements

Habitat provides information regarding the inputs that underlie a fair value measurement of financial instruments. The three levels of inputs essentially distinguish the relative reliability of inputs to fair value measurements. Level 1 inputs are more reliable and objective than Level 2 inputs, which are in turn more reliable and objective than Level 3 inputs. In arriving at a fair value measure, Habitat is required to determine the level in the fair value hierarchy within which a fair value measurement ultimately falls and provide disclosure of such determinations.

Restricted and Unrestricted Revenue

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the reporting period in which the revenue is recognized. All other donor-restricted contributions are reported as increases to net assets with donor restrictions, depending on the nature of the restriction. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions and are reported in the statement of activities as net assets released from restrictions.

Donated Services

Habitat receives significant donated services from unpaid volunteers who assist in operating the Store, home building, operational support, family selection, fundraising and administrative tasks. Donated services are recorded at fair value if they create or enhance non-financial assets or if they consisted of specialized skills that would have to be purchased if they were not donated. Management estimates the fair value of construction, Store and office volunteer services to be approximately \$118,400, \$129,700 and \$94,700, respectively, for the year ended June 30, 2022, and \$125,000, \$88,300 and \$72,500, respectively, for the year ended June 30, 2021. These volunteer services were not recorded in the financial statements since they did not meet the requirements for recognition.

Functional Allocation of Expenses

The costs of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

Impairment Loss

For assets to be held and used, U.S. GAAP require the recognition of an impairment loss whenever events or changes in circumstances have indicated that an asset may be impaired and the future cash flows from that asset are less than the asset's carrying amount. The impairment loss is measured as the difference between the asset's carrying amount and its fair value.

There was no impairment loss recognized for the years ended June 30, 2022 and 2021.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Advertising

Habitat expenses advertising costs as they are incurred. Advertising costs totaled \$8,805 and \$2,455 for the years ended June 30, 2022 and 2021, respectively, and are included in printing and publication expense in the statements of functional expenses.

Income Tax Status

Habitat for Humanity of East Jefferson County is exempt from federal income tax under Section 501(c)(3) of the Internal Revenue Code.

Habitat's management evaluates tax positions taken by Habitat and recognizes a tax liability (or asset) if Habitat has taken an uncertain position that more likely than not would be sustained upon examination by the Internal Revenue Service. Habitat is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Equity Agreements

Completed homes are sold at fair value to qualified homeowners. A first mortgage is written for the portion affordable to the purchaser according to federal guidelines. Habitat obtains a deed of trust for any difference between the purchase price (i.e., the current fair value) and the amount of the first mortgage. A second equity agreement (the shared appreciation agreement) reflects the difference between the fair value and the total development costs, if greater than the fair value. A portion is recaptured at the time of title transfer based upon future appreciation. The equity agreements are not reflected in the financial statements.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

New Accounting Pronouncement

In February 2016, the Financial Accounting Standards Board issued Accounting Standards Update ("ASU") 2016-02, *Leases* (Topic 842). The purpose of the new standard is to increase the transparency and comparability in financial reporting by requiring lessees to report an asset and a corresponding liability on the statement of financial position for most leases. Lessor accounting for leases was substantially unchanged. The ASU's requirements are broadly applicable, will be effective for years beginning after December 15, 2021, and will require a modified retrospective application approach for existing leases whereby the effects of implementing the new standard will be applied to the earliest period presented. Management is currently evaluating how the new requirements will affect Habitat's financial statements.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 - NATURE OF OPERATIONS AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Subsequent Events

The management of Habitat has evaluated subsequent events and transactions for potential recognition and disclosure through October 25, 2022, the date the statements were available to be issued.

NOTE 2 - LIQUIDITY AND AVAILABILITY

Financial assets available for expenditure, that is, without donor or other restrictions limiting their use, within one year of the statement of financial position date, comprise the following at June 30:

	<u>2022</u>	<u>2021</u>
Cash	\$ 278,679	\$ 792,105
Restricted cash	845,492	961,434
Accounts and grants receivable	55,639	29,130
Contributions receivable	3,500	24,559
Mortgages receivable - current portion	<u>57,450</u>	<u>62,201</u>
Total Financial Assets Available	1,240,760	1,869,429
Less financial assets not available for general expenditures		
Restricted cash - escrow	(3,400)	(2,700)
Board-designated funds	(331,042)	(527,632)
Purpose restrictions	<u>(511,050)</u>	<u>(365,620)</u>
Financial Assets Available to Meet Cash Needs for General Expenditures within One Year	\$ <u>395,268</u>	\$ <u>973,477</u>

Although Habitat does not intend to spend from board-designated net assets (outside of spending for the designated purpose) the board could choose to make these funds available for other purposes, if necessary.

As part of Habitat's liquidity management plan, cash in excess of daily requirements is invested in certificates of deposit and savings accounts.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 3 - CONCENTRATION OF CREDIT RISK

Habitat maintains cash and money market balances at several financial institutions. Accounts at each institution are insured by the Federal Deposit Insurance Corporation up to \$250,000. Habitat has cash balances on deposit with financial institutions, which may at times exceed insured limits. Habitat has not experienced any losses in such accounts.

Habitat provides mortgage assistance primarily to low and very low-income buyers. Mortgages receivable with an undiscounted balance of \$960,249 and \$1,115,200 at June 30, 2022 and 2021, respectively, are secured by the property purchased.

NOTE 4 - CONTRIBUTIONS RECEIVABLE

Contributions receivable consist of the following at June 30:

	<u>2022</u>	<u>2021</u>
Unconditional promises expected to be collected in		
Less than one year	\$ 3,500	\$ 24,559
One year to five years	<u>1,000</u>	<u>4,500</u>
	<u>\$ 4,500</u>	<u>\$ 29,059</u>

Amortization of discounts on contributions receivable was not material for the years ended June 30, 2022 or 2021. Habitat considers all pledges receivable to be fully collectible and, consequently, has made no allowance for uncollectible contributions.

A former board member has an outstanding pledge receivable in the amount of \$2,500 and \$7,500 at June 30, 2022 and 2021.

NOTE 5 - PROPERTY, FURNITURE AND EQUIPMENT

Property, furniture and equipment consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 482,892	\$ 345,788
Buildings and improvements	872,067	470,623
Furnishings and equipment	<u>128,597</u>	<u>132,096</u>
	1,483,556	948,507
Less accumulated depreciation	<u>329,335</u>	<u>295,407</u>
	<u>\$ 1,154,221</u>	<u>\$ 653,100</u>

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 5 - PROPERTY, FURNITURE AND EQUIPMENT (Continued)

Depreciation expense for the years ended June 30, 2022 and 2021 was \$37,428 and \$27,955, respectively.

NOTE 6 - MORTGAGES RECEIVABLE

Habitat holds 14 non-interest-bearing mortgages, which are secured by sold homes at June 30, 2022. U.S. GAAP require that interest be imputed on below-market interest instruments. The effect is to discount each note with an offsetting charge to mortgage discounts. The discount is then amortized over the life of each note as interest income. The resulting carrying value of the mortgages receivable approximates fair value. The notes are due upon the earlier of the sale of the home, refinance or at maturity.

Uncollectible notes are expected to be insignificant. Accordingly, no provision for doubtful accounts has been included in the financial statements. The notes have been discounted at rates of 5.00% to 8.48%, according to rates established by Habitat's finance committee.

Mortgages receivable consisted of the following at June 30:

	<u>2022</u>	<u>2021</u>
Face value	\$ 960,249	\$ 1,115,200
Less discount	<u>537,768</u>	<u>628,019</u>
	<u>\$ 422,481</u>	<u>\$ 487,181</u>

There was no mortgage discount expense recognized either in the year ended June 30, 2022 or 2021.

NOTE 7 - CONSTRUCTION IN PROGRESS

Habitat is in the process of building homes to provide additional affordable housing. The costs are being funded by contributions, mortgage payments by homeowners and Store sales.

NOTE 8 - LAND HELD FOR DEVELOPMENT

Land held for development consists of 11 buildable lots, 35 undeveloped lots in need of infrastructure and 2 buildable lots restricted for development at June 30, 2022. Land held for development at June 30, 2021 consisted of 14 buildable lots, 28 undeveloped lots in need of infrastructure and 2 buildable lots restricted for development.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 9 - FAIR VALUE DISCLOSURES

Assets valued using Level 1 inputs are based on unadjusted quoted market prices within active markets. Assets valued using Level 2 inputs are based primarily on quoted prices for similar assets in active or inactive markets. Level 3 inputs are based on Habitat's own assumptions on how knowledgeable parties would price assets or liabilities and are developed using the best information available in the circumstances.

The assets measured at fair value on a nonrecurring basis as of June 30, 2022 and 2021 consisted of land held for development totaling \$2,763,102 and \$1,120,018, respectively. The fair value measurements were valued using level 2 inputs.

NOTE 10 - LONG-TERM DEBT

Long-term debt consists of the following:

	<u>2022</u>	<u>2021</u>
Note payable to First Federal Savings, monthly payments of \$2,317, including interest at a variable rate at the bank index plus 4.11 percentage point, but no less than 4.875% (4.875% at June 30, 2022 and 2021), matures June 2025, secured by property.	\$ 266,341	\$ 280,562
Note payable to First Federal Savings, monthly payments of \$1,435, including interest at 4.750%, matures September 2022, secured by property.	146,944	158,913
Note payable to First Federal Savings, monthly payments of \$1,507 beginning in August 2021, including interest at 1.000%, due May 2022. Paid in full during 2022.		14,828
Note payable to First Federal Savings, monthly payments of \$1,932 beginning in July 2021, including interest at 4.100%, matures July 2028, secured by property.	<u>352,181</u> <u>765,466</u>	<u>454,303</u>
Less amount due within one year classified as a current liability	<u>170,841</u>	<u>35,747</u>
	<u>\$ 594,625</u>	<u>\$ 418,556</u>

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 10 - LONG-TERM DEBT (Continued)

Maturities of long-term debt are as follows:

2023	\$ 170,841
2024	24,994
2025	245,329
2026	10,080
2027	10,501
Thereafter	<u>303,721</u>
	\$ <u>765,466</u>

NOTE 11 - NET ASSETS WITH DONOR RESTRICTIONS

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

	<u>2022</u>	<u>2021</u>
Purpose restrictions		
House construction projects	\$ 491,212	\$ 277,779
Land Bank		80,000
Other land	22,500	22,500
Permanent affordability	19,838	
Staffing grant		<u>7,841</u>
	<u>533,550</u>	<u>388,120</u>
Time restrictions		
Pledges from individuals	<u>4,500</u>	<u>29,060</u>
	\$ <u>538,050</u>	\$ <u>417,180</u>

NOTE 12 - CONTRIBUTED GOODS AND SERVICES

Contributed goods and services consisted of the following:

	<u>2022</u>	<u>2021</u>
Rent		\$ 5,600
Land held for investment	\$ 105,000	
Construction materials	31,164	15,463
Habitat Store merchandise	446,148	252,535
Professional services	<u>58,264</u>	<u>28,440</u>
	\$ <u>640,576</u>	\$ <u>302,038</u>

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 13 - RESTRICTED CASH

Some cash is restricted for program use in compliance with certain loan requirements or deposits from participating homebuyers, and for future land purchases, and cannot be used for general operations. The aggregate balance of this restricted cash was \$845,492 and \$961,434, for the years ended June 30, 2022 and 2021, respectively.

NOTE 14 - OPERATING LEASE AGREEMENT

Habitat leased real property from a former board member for the Habitat Store in Quilcene. The lease expired June 30, 2021 and was not renewed. The monthly lease payments were \$800 per month. The rent is less than fair value for the property, which was computed to be \$1,600 per month. The difference was recorded as an in-kind contribution for the year ended June 30, 2021.

In addition to the base rent, Habitat paid annual rental amounts to the lessor. Rental payments to the former board member, including the annual deposit, was \$5,600 for the year ended June 30, 2021.

In November 2017, Habitat entered into an operating lease for equipment under a noncancelable lease that expires in 2022. Monthly lease payments of \$145 are included in the printing and publications category on the 2022 and 2021 statements of functional expenses.

Minimum annual payments under lease agreements for future years ending June 30 are as follows:

2023	\$ <u>725</u>
Total Minimum Lease Payments	\$ <u>725</u>

Total rental expense for the years ending June 30, 2022 and 2021 was \$2,130 and \$13,399, respectively.

NOTE 15 - RETIREMENT PLAN

Habitat has a defined contribution plan that covers all employees who are eligible to participate in employee contributions upon hire and employer contributions after three months of service. Habitat may contribute discretionary profit-sharing contributions. For the years ended June 30, 2022 and 2021, Habitat contributed \$30,990 and \$13,368, respectively, into the plan.

HABITAT FOR HUMANITY OF EAST JEFFERSON COUNTY

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 16 - BOARD-DESIGNATED NET ASSETS

The Board of Directors designated \$331,042 and \$527,632 at June 30, 2022 and 2021, in net assets without donor restrictions to be exclusively used for acquisition and development of buildable land, future capital expansion and repairs of its office building.

NOTE 17 - FUNCTIONALIZED EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The expenses that are allocated include facilities, telephone, equipment rental and maintenance and insurance, which are allocated on a square footage basis, as well as salaries and wages, payroll taxes and benefits, supplies and equipment, professional fees, information technology, printing and publications, travel and vehicle and other, which are allocated on the basis of estimates of time and effort.

NOTE 18 - RISKS, UNCERTAINTIES AND COMMITMENTS

Amounts received from grantor agencies are subject to audit and adjustments by the grantor agency. Any disallowed cost, including amounts already collected, may constitute a liability for Habitat. The amounts, if any, of expenditures that may be disallowed by the grantor are recorded at the time that such amounts can be reasonably determined, normally upon notification of the government agency. There were no adjustments for the years ended June 30, 2022 or 2021.

As of June 30, 2022, the world was in the midst of the COVID-19 pandemic. Significant uncertainty remains regarding the wide-ranging effects of the pandemic subsequent to year-end. Habitat is closely monitoring its operations, liquidity, capital and financial resources, and is actively working to minimize the current and future effects of this unprecedented situation. As of the date of issuance of these financial statements, the full impact of the pandemic to Habitat's financial position or operations is not known.

In May 2020, Habitat received loan proceeds in the amount of \$138,200 under the Paycheck Protection Program. \$124,724 of the loan was forgiven in June 2021 and recorded in grants revenue on the statement of activities for the year ending June 30, 2021.