



LEXINGTON HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2022 AND 2021

LEXINGTON HABITAT FOR HUMANITY, INC.

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REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Lexington Habitat for Humanity, Inc.
Lexington, Kentucky

Opinion

We have audited the accompanying financial statements of Lexington Habitat for Humanity, Inc. ("Habitat"), a nonprofit organization, 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 financial statements referred to above 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.

Basis for Opinion

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

Change in Accounting Principle

As discussed in Note 12 to the financial statements, Habitat adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosure by Not-for-Profit Entities for Contributed Nonfinancial Assets* effective July 1, 2021. Our opinion is not modified with respect to this matter.

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 within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- Exercise professional judgement 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 judgement, 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.

Blue & Co., LLC

Lexington, Kentucky
December 16, 2022

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION JUNE 30, 2022 AND 2021

	ASSETS	
	2022	2021
Cash	\$ 1,364,019	\$ 1,570,964
Accounts and grants receivable	937,267	190,677
Inventory	4,896	5,340
Prepaid expenses	87,722	72,769
Non-interest bearing mortgage loans, net	3,818,326	4,237,808
Construction in progress	352,576	295,810
Land and property held for sale or development	785,028	243,067
Buildings and equipment, net	1,019,335	1,167,721
Investments at fair value	1,061,555	1,267,235
Total assets	<u>\$ 9,430,724</u>	<u>\$ 9,051,391</u>
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 202,002	\$ 143,979
Accrued liabilities	155,129	150,022
Refundable advance	273,086	246,369
Line of credit	-0-	200,000
Notes payable	661,470	734,594
Total liabilities	<u>1,291,687</u>	<u>1,474,964</u>
Net assets		
Without donor restrictions	6,966,226	6,185,261
With donor restrictions		
Purpose restricted for the Love Your Neighborhood program	111,256	123,931
Endowment fund	1,061,555	1,267,235
Total net assets with donor restrictions	<u>1,172,811</u>	<u>1,391,166</u>
Total net assets	<u>8,139,037</u>	<u>7,576,427</u>
Total liabilities and net assets	<u>\$ 9,430,724</u>	<u>\$ 9,051,391</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES YEAR ENDED JUNE 30, 2022

	Without donor restrictions	With donor restrictions	Total
Revenues and other support			
ReStore sales, net	\$ 1,610,444	\$ -0-	\$ 1,610,444
Transfers to homeowners	698,288	-0-	698,288
Program sponsorship revenue	456,979	46,791	503,770
Contributions and fundraising:			
Cash and other financial assets	360,322	1,204	361,526
Nonfinancial assets	73,439	-0-	73,439
Grants	357,285	-0-	357,285
Interest income from mortgage discount amortization	450,203	-0-	450,203
Special events, net of donor benefits	161,798	-0-	161,798
Employee retention tax credit	670,486	-0-	670,486
Other income	15,502	-0-	15,502
Investment return, net	-0-	(154,448)	(154,448)
Income from repair-program recipients	3,168	-0-	3,168
Income from rent-to-own pilot program	3,250	-0-	3,250
Gain from early payoff of mortgages	185,851	-0-	185,851
Gain on equipment dispositions	4,483	-0-	4,483
Released from restrictions and used for programs	111,902	(111,902)	-0-
Total revenues and other support	5,163,400	(218,355)	4,945,045
Expenses			
Program	3,494,192	-0-	3,494,192
Management and general	596,462	-0-	596,462
Fundraising	291,781	-0-	291,781
Total expenses	4,382,435	-0-	4,382,435
Change in net assets	780,965	(218,355)	562,610
Net assets, beginning of year	6,185,261	1,391,166	7,576,427
Net assets, end of year	\$ 6,966,226	\$ 1,172,811	\$ 8,139,037

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2021

	Without donor restrictions	With donor restrictions	Total
Revenues and other support			
ReStore sales, net	\$ 1,685,169	\$ -0-	\$ 1,685,169
Transfers to homeowners	681,000	-0-	681,000
Program sponsorship revenue	437,085	102,190	539,275
Contributions and fundraising:			
Cash and other financial assets	284,523	1,474	285,997
Nonfinancial assets	50,552	-0-	50,552
Grants	478,818	-0-	478,818
Interest income from mortgage discount amortization	401,652	-0-	401,652
Special events, net of donor benefits	135,199	-0-	135,199
Gain on loan forgiveness	275,000	-0-	275,000
Other income	14,982	-0-	14,982
Investment return, net	-0-	330,172	330,172
Income from repair-program recipients	4,375	-0-	4,375
Income from rent-to-own pilot program	4,550	-0-	4,550
Gain from early payoff of mortgages	92,262	-0-	92,262
Released from restrictions and used for programs	141,572	(141,572)	-0-
Total revenues and other support	4,686,739	292,264	4,979,003
Expenses			
Program	3,151,185	-0-	3,151,185
Management and general	574,162	-0-	574,162
Fundraising	269,613	-0-	269,613
Total expenses	3,994,960	-0-	3,994,960
Change in net assets	691,779	292,264	984,043
Net assets, beginning of year	5,493,482	1,098,902	6,592,384
Net assets, end of year	\$ 6,185,261	\$ 1,391,166	\$ 7,576,427

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2022

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 1,099,041	\$ 331,704	\$ 202,355	\$ 1,633,100
Building materials and supplies	1,217,520	-0-	-0-	1,217,520
Employee fringe benefits and payroll taxes	280,192	79,311	51,366	410,869
Rent expense	307,301	-0-	-0-	307,301
Depreciation expense	55,747	66,916	-0-	122,663
Repairs and maintenance	108,510	9,721	4,867	123,098
Office	52,528	12,029	20,582	85,139
Utilities	75,174	893	714	76,781
Insurance	51,859	11,635	22	63,516
ReStore cost of goods sold	5,942	-0-	-0-	5,942
Professional fees	63,131	51,424	135	114,690
Bank and merchant account charges	34,017	352	5,862	40,231
Special events, donor benefits	-0-	-0-	60,104	60,104
Interest expense	8,553	15,407	-0-	23,960
Vehicle expense	34,918	-0-	35	34,953
Advertising	28,297	-0-	1,232	29,529
Habitat for Humanity International, Inc. fees and tithes	23,000	-0-	-0-	23,000
Partner family expenses	25,350	-0-	-0-	25,350
Telephone	8,655	1,128	1,262	11,045
Postage	1,303	643	1,936	3,882
Equipment rental	1,084	2,773	-0-	3,857
Seminars and conferences	9,794	8,199	765	18,758
Travel and training	5,853	4,327	648	10,828
Bad debt expense	1,009	-0-	-0-	1,009
Post sale home repairs	1,356	-0-	-0-	1,356
Total expenses	<u>3,500,134</u>	<u>596,462</u>	<u>351,885</u>	<u>4,448,481</u>
Less expenses included with revenues in the statement of activities	<u>(5,942)</u>	<u>-0-</u>	<u>(60,104)</u>	<u>(66,046)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 3,494,192</u>	<u>\$ 596,462</u>	<u>\$ 291,781</u>	<u>\$ 4,382,435</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES YEAR ENDED JUNE 30, 2021

	Program Services	Management and General	Fundraising	Total
Salaries	\$ 971,716	\$ 344,124	\$ 186,476	\$ 1,502,316
Building materials and supplies	1,138,429	-0-	-0-	1,138,429
Employee fringe benefits and payroll taxes	249,491	68,610	46,555	364,656
Rent expense	294,540	-0-	-0-	294,540
Depreciation expense	64,096	75,046	-0-	139,142
Repairs and maintenance	95,431	9,772	4,404	109,607
Office	37,003	10,663	20,571	68,237
Utilities	66,522	802	641	67,965
Insurance	52,370	10,731	22	63,123
ReStore cost of goods sold	53,064	-0-	-0-	53,064
Professional fees	17,746	32,745	324	50,815
Bank and merchant account charges	34,055	65	3,221	37,341
Special events, donor benefits	-0-	-0-	37,133	37,133
Interest expense	15,342	16,089	-0-	31,431
Vehicle expense	30,546	-0-	-0-	30,546
Advertising	25,613	-0-	1,465	27,078
Habitat for Humanity International, Inc. fees and tithes	23,250	-0-	-0-	23,250
Partner family expenses	17,805	-0-	-0-	17,805
Telephone	9,558	1,663	1,290	12,511
Postage	931	610	3,931	5,472
Equipment rental	2,583	2,471	-0-	5,054
Loss on asset dispositions	2,125	-0-	-0-	2,125
Seminars and conferences	479	694	440	1,613
Travel and training	627	77	273	977
Post sale home repairs	927	-0-	-0-	927
Total expenses	<u>3,204,249</u>	<u>574,162</u>	<u>306,746</u>	<u>4,085,157</u>
Less expenses included with revenues in the statement of activities	<u>(53,064)</u>	<u>-0-</u>	<u>(37,133)</u>	<u>(90,197)</u>
Total expenses included in the expense section of the statement of activities	<u>\$ 3,151,185</u>	<u>\$ 574,162</u>	<u>\$ 269,613</u>	<u>\$ 3,994,960</u>

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Operating Activities		
Change in net assets	\$ 562,610	\$ 984,043
Adjustments to reconcile change in net assets to net change from operating activities:		
Bad debt expense	1,009	-0-
Depreciation	122,663	139,142
Transfers to homeowners - financed by Habitat	(44,288)	-0-
Imputed interest income from non-interest bearing mortgage loans	(450,203)	(401,652)
Gain on debt forgiveness	-0-	(275,000)
Realized and unrealized losses (gains) on investments	183,317	(309,726)
(Gain) loss on disposal of assets	(4,483)	2,125
Changes in operating assets and liabilities:		
Accounts and grants receivable	(747,599)	(166,091)
Inventory	444	3,888
Prepaid expenses	(14,953)	11,039
Construction in progress	20,116	73,117
Land and property held for sale or development	(541,961)	185,555
Accounts payable	58,023	56,480
Accrued liabilities	5,107	15,356
Refundable advance	26,717	96,744
Net cash flows from operating activities	(823,481)	415,020

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS YEARS ENDED JUNE 30, 2022 AND 2021

	2022	2021
Investing Activities		
Proceeds from sales of property and equipment	5,000	3,100
Purchases of property and equipment	(51,676)	(12,151)
Non-interest bearing mortgage loan payments received	913,973	820,484
Proceeds from sales of investments	235,717	66,940
Purchases of investments	(213,354)	(39,382)
Net cash flows from investing activities	889,660	838,991
Financing Activities		
Net payments on line of credit	(200,000)	(64,554)
Payments on notes payable	(73,124)	(78,637)
Net cash flows from financing activities	(273,124)	(143,191)
Net change in cash	(206,945)	1,110,820
Cash, beginning of year	1,570,964	460,144
Cash, end of year	\$ 1,364,019	\$ 1,570,964
Cash payments for:		
Interest	\$ 23,960	\$ 31,431
Supplemental non-cash investing and financing transactions:		
Discount on current year non-interest bearing mortgage loans	\$ 65,712	\$ -0-
Transfer of construction in progress and land and property held for sale or development to property and equipment for rental program	\$ -0-	\$ 80,929
Transfer of rental program property to construction in progress	\$ 76,882	\$ -0-

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

1. NATURE OF ACTIVITIES AND SIGNIFICANT ACCOUNTING POLICIES

Nature of Activities

Lexington Habitat for Humanity, Inc. (Habitat), a nonprofit corporation, was incorporated on November 26, 1986. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

Habitat operates a discount home improvement outlet called ReStore. ReStore sells donated new and gently used furniture, home accessories, building supplies, and appliances. All ReStore proceeds benefit Habitat.

Basis of Presentation

The accompanying financial statements have been prepared on the accrual basis, and have been prepared with a focus on the entity as a whole. Accordingly, revenues are recognized when they are earned and expenses are recognized when they are incurred. Net assets, support, revenues, gains, and losses are classified based on the existence or absence of donor restrictions. Accordingly, the net assets of Habitat are classified and reported as follows:

Net assets without donor restrictions: Net assets that are currently available for operating purposes under the direction of the board or designated by the board for specific use.

Net assets with donor restrictions: Net assets subject to donor stipulations for specific operating purposes or time restrictions. These include donor restrictions requiring the net assets be held in perpetuity or for a specified term with investment return available for operations or specific purposes.

Estimates

Management uses estimates and assumptions in preparing the financial statements. Those estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities and reported revenues and expenses. Actual results could differ from those estimates.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Cash

Habitat maintains its cash in bank deposit accounts, which at times may exceed federally insured limits. Habitat has not experienced any losses in such accounts and believes it is not exposed to significant credit risk on cash. At June 30, 2022, the amount of cash in excess of federally insured limits totaled \$1,162,944.

Investments

Investments in equity and debt securities that have a readily determinable fair value are reported at fair value in the statements of financial position. Unrealized gains and losses are included in the change in net assets. Investment income and gains restricted by a donor are reported as increases in net assets without donor restrictions if the restrictions are met (either by passage of time or by use) in the reporting period in which the income and gains are recognized.

Accounts Receivable

Accounts receivable primarily consists of grants earned, but not yet received. Grants are recorded at the amount Habitat expects to collect on outstanding balances. Habitat has not recorded an allowance for uncollectible grant receivables, as historically, they have not experienced materially uncollectible amounts.

Receivables are considered past due based on contractual terms and Habitat does not accrue finance charges on its past due receivables. Receivables deemed to be uncollectible are written off in the period in which the determination is made. Management believes there is no significant risk of loss associated with the receivables recorded at June 30, 2022 and 2021, and accordingly no provision for bad debts has been provided in the accompanying financial statements.

Non-Interest Bearing Mortgage Loans, Net

Habitat records and accounts for non-interest bearing loans using the discounted cash flow method based on Habitat's current incremental borrowing rates for similar types of borrowing arrangements. These rates vary from 7.38% to 8.48% based upon the prevailing market rate at the inception of the mortgages. Discounts are amortized using the effective interest method over the lives of the mortgages. The discounted carrying amount of these loans approximates their fair value. An expense is recorded upon the sale of the houses for the difference between the face value of the mortgage loans receivable and the present value of the loans. The mortgages are secured by the real estate and due in monthly installments over the life of the mortgages, which range from 15 to 40 years. Some homeowners are able to borrow the full appraised value of the home via one Habitat non-interest bearing loan. For other homeowners, two notes are issued: one being the amount the board has set (the first note), the other being the difference between the amount of the first note and the appraised value of the home. After a period of time designated in the mortgage, the second note, which is not recorded by Habitat, is forgiven, annually, at a prorated amount designated in the mortgage such that before or at

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

the maturity date of the first note, the second note would be forgiven in full. Habitat's policy is to work closely with homeowners to avoid defaulted mortgages.

Habitat has not recorded an allowance for uncollectible mortgages because it can reclaim houses through foreclosure. Though some of these mortgages may be foreclosed, Habitat believes that losses on foreclosure, if any, are immaterial in relation to these financial statements.

Inventory

Inventory consists of construction materials that were donated or purchased by Habitat. Inventory is valued at the market value of the donation or cost of the asset on the first in, first out method.

Construction in Progress

Construction in progress includes the direct and indirect costs of construction, land, and the estimated fair market value of donated materials and professional services used in construction of homes. Transfer to homeowners is recorded when the home is occupied and title is transferred.

Land and Property Held for Sale or Development

Land or property held for sale or development includes the cost of land and improvements to land or, if donated, the approximate fair value of the land at the date of the donation, held for sale or future development and properties previously transferred by Habitat which have been reclaimed in foreclosure, which are recorded at the outstanding first note balance at the date of foreclosure.

ReStore Inventory

Most of the store's merchandise has been donated by building supply stores and by individuals in the community. Because many of the donations are the result of overstocked items or are used items, the value of the donations is not readily determinable until such merchandise is sold. Therefore, retail inventory of the store has not been recorded in these financial statements. Retail sales are recorded at the point of sale.

Sales Taxes

Habitat operates two ReStore locations in the state of Kentucky, which imposes a sales tax on Habitat's sales. Habitat collects sales tax from customers and remits the entire amount to the State. Habitat's accounting policy is to deduct the tax collected and remitted to the State from revenues.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Building and Equipment

Building and equipment consist of land, construction in progress, leasehold improvements, and furniture and equipment which are stated at cost. Depreciation is provided for using the straight-line method over the estimated useful lives of the respective assets, which range from 5 to 40 years. Acquisitions of property and equipment in excess of \$2,000 are capitalized. The cost of repairs and maintenance is expensed as incurred.

Transfers to Homeowners

Traditionally, all Habitat homebuyers obtained financing from Habitat via non-interest bearing mortgage loans. However, beginning in July 2018, most Habitat homebuyers finance their homes through interest-bearing first mortgage loans from an external lending institution, and a forgivable subordinate mortgage loan from Habitat for the difference between the amount of the appraised value of the home and the first mortgage plus any forgivable subordinate mortgage loans from grant funders. The proceeds from the first mortgage loan are paid to Habitat upon closing of the loan. The remaining homebuyers continue to obtain financing from Habitat via non-interest bearing mortgage loans. In both situations, transfers to homeowners are recorded at the first mortgage amount. Non-interest bearing mortgages have been discounted based upon prevailing market rates for low income housing at the inception of the mortgages, as provided by Habitat International. Utilizing the effective interest method, this discount will be recognized as interest income over the term of the mortgage.

Revenue Recognition

Unconditional contributions are recorded when received as increases to net assets without donor restrictions unless use of the related assets is limited by donor-imposed restrictions. When a donor restriction is met, net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statement of activities as released from restrictions used for programs.

Conditional contributions are recorded when explicit conditions are met. Homebuyer sponsorships are conditional contributions where Habitat must complete the construction of sponsored homes. If the sponsored home builds are not fully constructed, any contributions received in advance would be returned to the sponsors. Therefore, homebuyer sponsorships received in advance of completion of the sponsored home builds are recorded as a refundable advance on the statement of financial position. After a sponsored home is fully constructed and transferred to the homebuyer, the amounts previously recorded as a refundable advance are recognized as revenue in the statement of activities.

Revenue from the sales of homes (contract revenue) is generally recognized at the time of the closing of the sale, when title and possession of the property are transferred to the buyer, and is reported at the amount that reflects the consideration to which Habitat expects to be entitled in exchange for building and transferring the home to the homeowner. These amounts are due

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

from the homeowner and from third-party payors, which include governmental agencies. Included in grants revenue for the year ended June 30, 2022 and 2021 is approximately \$288,000 and \$378,000, respectively, related to such third-party payor arrangements. Included in accounts receivable at June 30, 2022 and 2021 is \$222,000 and \$159,000, respectively, related to such arrangements, and the balance was \$-0- at July 1, 2020. The related building materials and supplies costs are recorded as expenses when the related revenue is recognized.

Revenue from ReStore sales (contract revenue) is recorded upon the delivery of the goods to the buyer, which is when the performance obligation is satisfied, and is reported net of any discounts.

Gifts In-kind

Property, equipment, land, materials, supplies, and services which are donated as support, are recorded at estimated fair values on the date of donation. Such donations are reported as net assets without donor restrictions unless the donor has restricted the contributions to a specific purpose. Assets donated with explicit restrictions as to their use are reported as net assets with donor restrictions. Habitat reports expirations of donor restrictions when the donated assets are placed in service as instructed by the donor. Habitat reclassifies net assets with donor restrictions to net assets without donor restrictions when the donor's restriction is satisfied.

A substantial number of volunteers have made significant contributions of time to assist Habitat's program and supporting services. No amounts have been recognized in the accompanying statements of activities for these volunteer services because accounting standards criteria for recognition have not been satisfied.

Advertising Costs

Advertising costs are expensed when incurred.

Functional Allocation of Expenses

The costs of providing the programs and services of Habitat have been summarized on a functional basis in the Statements of Activities. Accordingly, certain costs have been allocated among the various programs and supporting activities benefited.

The financial statements report certain categories of expenses that are attributable to one or more program or supporting functions of Habitat. Therefore, these expenses require allocation on a reasonable basis that is consistently applied. Certain expenses not directly benefiting a certain program are allocated, including certain salaries and benefits, which are allocated based on employees' job responsibilities, and utilities and other facilities-related costs, which are allocated to each respective function based on square footage. While the methods of allocation are considered appropriate, other methods could produce different results.

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NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Income Taxes

Habitat is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code (the Code). In addition, Habitat has been determined by the Internal Revenue Service not to be a private foundation within the context of Section 509(a) of the Code.

Accounting principles generally accepted in the United States of America require management to evaluate tax positions taken by Habitat and recognize a tax liability if Habitat has taken an uncertain position that more likely than not would not be sustained upon examination by various federal and state taxing authorities. Management has analyzed the tax positions taken by Habitat, and has concluded that as of June 30, 2022 and 2021, there are no uncertain positions taken or expected to be taken that would require recognition of a liability or disclosure in the accompanying financial statements. Habitat is subject to routine audits by taxing jurisdictions; however, there are currently no audits for any tax periods in progress.

Habitat has filed its federal information returns for periods through June 30, 2021. These information returns are generally open to examination by the relevant taxing authorities for a period of three years from the later of the date the return was filed or its due date (including approved extensions).

Going Concern

Management evaluates whether there are conditions or events that raise substantial doubt about the entity's ability to continue as a going concern for a period of one year from the date the financial statements are available to be issued.

Subsequent Events

Habitat has evaluated events or transactions occurring subsequent to the statement of financial position date for recognition and disclosure in the accompanying financial statements through, December 16, 2022, the date which the financial statements were available to be issued.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

2. NON-INTEREST BEARING MORTGAGE LOANS, NET

Maturities of non-interest bearing mortgage loans receivable as of June 30, 2022 are as follows:

<u>Year ended June 30:</u>	
2023	\$ 613,791
2024	530,250
2025	506,374
2026	470,013
2027	434,995
2028 and thereafter	4,155,832
	<u>6,711,255</u>
Less discount	(2,892,929)
	<u>\$ 3,818,326</u>

As of June 30, 2021, non-interest bearing mortgage loans receivable, net of unamortized discounts, totaled \$4,237,808.

3. CONSTRUCTION IN PROGRESS AND LAND AND PROPERTY HELD FOR SALE OR DEVELOPMENT

A summary of activity in construction in progress and land and property held for sale or development for the year ended June 30, 2022:

	<u>Construction in progress</u>	<u>Land and property held for sale or development</u>
Balance at June 30, 2021	\$ 295,810	\$ 243,067
Gifts in-kind and donations	8,588	-0-
Purchases and additional cost incurred	801,403	939,641
Transfers of land	387,413	(387,413)
Reclassification of rental property as held for sale	76,882	-0-
Property sold	-0-	(10,267)
Cost of completed repair projects transferred out	(82,064)	-0-
Cost of recycled homes transferred out	(373,305)	-0-
Cost of completed homes transferred out	(762,151)	-0-
Balance at June 30, 2022	<u>\$ 352,576</u>	<u>\$ 785,028</u>

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

A summary of activity in construction in progress and land and property held for sale or development for the year ended June 30, 2021:

	Construction in progress	Land and property held for sale or development
Balance at June 30, 2020	\$ 387,016	\$ 491,462
Gifts in-kind and donations	32,338	-0-
Purchases and additional cost incurred	848,486	44,941
Transfers of land	184,488	(184,488)
Property sold	-0-	(46,008)
Property transferred to rent-to-own pilot program	(18,089)	(62,840)
Cost of completed repair projects transferred out	(95,236)	-0-
Cost of completed homes transferred out	(1,043,193)	-0-
Balance at June 30, 2021	\$ 295,810	\$ 243,067

4. BUILDING AND EQUIPMENT, NET

Building and equipment, net consist of the following at June 30:

	2022	2021
Buildings and improvements	\$ 1,545,693	\$ 1,497,479
Rent-to-own pilot program property	-0-	80,929
Land	89,250	89,250
Office furniture	139,026	139,026
Warehouse equipment	131,613	135,918
Vehicles	209,724	237,723
	2,115,306	2,180,325
Less accumulated depreciation	1,095,971	1,012,604
	\$ 1,019,335	\$ 1,167,721

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

5. INVESTMENTS

Investments consist of the following at June 30:

	2022	2021
Cash	\$ 107,275	\$ 114,713
Equities, common stocks, exchange-traded funds, and closed-end funds:		
International	221,441	448,869
Large cap	202,675	277,516
Emerging markets	162,452	-0-
Small cap	135,598	177,169
Other	89,472	41,487
U.S. government	73,903	73,887
Real estate	46,894	48,396
Fixed income	21,845	85,198
	<u>\$ 1,061,555</u>	<u>\$ 1,267,235</u>

6. FAIR VALUE MEASUREMENT

Major classes of assets and liabilities that are measured at fair value are categorized according to a fair value hierarchy that prioritizes the inputs to value techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1) and the lowest priority to unobservable inputs (Level 3).

- Level 1: Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that Habitat has the ability to access.
 - Level 2: Inputs to the valuation methodology include quoted prices for similar assets or liabilities in active markets; quoted prices for identical or similar assets or liabilities in inactive markets; inputs other than quoted prices that are observable for the asset or liability; inputs that are derived principally from or corroborated by observable market data by correlation or other means. If the asset or liability has a specified (contractual) term, the level 2 input must be observable for substantially the full term of the asset or liability.
 - Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.
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LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

The asset or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques maximize the use of relevant observable inputs and minimize the use of unobservable inputs.

Following is a description of the valuation methodologies used for assets measured at fair value. There have been no changes in the methodologies used at June 30, 2022 and 2021.

- Mutual funds, exchange-traded, and closed-end funds: Valued at the daily closing price as reported by the respective funds. These funds are registered with the Securities and Exchange Commission, publish their daily NAV, and transact at that price. These funds are deemed to be actively traded.

Fair value measurements at June 30, 2022:

	Level 1	Level 2	Level 3	Total
Investments:				
Exchange-traded and closed-end funds	\$ 954,280	\$ -0-	\$ -0-	\$ 954,280
Total assets at fair value	\$ 954,280	\$ -0-	\$ -0-	954,280
Cash				107,275
Total investments				\$ 1,061,555

Fair value measurements at June 30, 2021:

	Level 1	Level 2	Level 3	Total
Investments:				
Exchange-traded and closed-end funds	\$ 1,152,522	\$ -0-	\$ -0-	\$ 1,152,522
Total assets at fair value	\$ 1,152,522	\$ -0-	\$ -0-	\$ 1,152,522
Cash				114,713
Total investments				\$ 1,267,235

7. LINE OF CREDIT

At June 30, 2022 and 2021, Habitat has available a secured line of credit, which provides for borrowing up to \$600,000. Interest is payable monthly and is charged at a rate equal to the prime rate (with a maximum rate of 5.50%), which was 4.75% and 3.25% at June 30, 2022 and 2021, respectively. The current agreement expires in March 2023. The line of credit is secured by the assignment of mortgages of properties located in Lexington, Kentucky with an aggregate carrying value of approximately \$462,000 at June 30, 2022. The outstanding balance on the line of credit as of June 30, 2022 and 2021 was \$-0- and \$200,000, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

8. NOTES PAYABLE

Notes payable as of June 30, 2022 and 2021 consist of the following:

	2022	2021
<p>Various non-interest bearing notes payable to Habitat International. The notes are payable in 48 monthly installments with maturity dates through December 2021. The notes are unsecured full recourse obligations of Habitat. If the loans default, they become payable on demand plus interest at 10% from the date of the loan's inception.</p>	\$ -0-	\$ 7,387
<p>1% installment note payable to Kentucky Housing Corporation in 30 annual installments of principal and interest in the amount of \$5,812. The note is unsecured. Final payment due in June 2034.</p>	65,417	70,524
<p>Various 1% installment notes payable, unsecured, to Bluegrass Affordable Housing Association. Interest is due quarterly and principal is due annually. The notes mature through October 2030.</p>	81,972	109,677
<p>Construction note payable to bank dated December 20, 2016. Principal and interest payments due monthly at a fixed rate of 4.5% through December 2021, and a variable rate equal to the prime rate through maturity at June 2033 (4.75% at June 30, 2022). Secured by land and improvements thereon located at 700 Loudon Avenue, Lexington, Kentucky with a net book value of approximately \$848,872 at June 30, 2022.</p>	127,178	136,339
<p>Installment note payable to bank dated March 19, 2015. Original amount of \$541,500. Principal and interest payments due in monthly installments that vary based on prime with a final payment due March 19, 2035. The note bears interest at a rate equal to prime, with a maximum rate of 4.75% through March 2022 (4.75% at June 30, 2022), and is secured by property and land located at 700 East Loudon Avenue, Lexington, Kentucky with a net book value of approximately \$848,872 at June 30, 2022.</p>	386,903	410,667
Total	\$ 661,470	\$ 734,594

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

The following is a summary of debt maturities as of June 30, 2022:

<u>Year ended June 30:</u>		
2023	\$	54,081
2024		54,310
2025		53,760
2026		52,429
2027		54,856
2028 and thereafter		392,034
	\$	<u>661,470</u>

9. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at June 30, 2022 and 2021:

	<u>2022</u>	<u>2021</u>
Donor-restricted endowment fund:		
Restricted in perpetuity	\$ 1,020,706	\$ 1,019,502
Accumulated investment gains subject to satisfaction of donor purpose restrictions	40,849	247,733
Restricted for the Love Your Neighborhood program	111,256	123,931
	<u>\$ 1,172,811</u>	<u>\$ 1,391,166</u>

10. ENDOWMENT FUND

Habitat's endowment funds consist of a donor-restricted endowed fund that supports local and international service projects. As required by accounting principles generally accepted in the United States of America, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

The Board of Directors has interpreted the Uniform Prudent Management of Institutional Funds Act ("UPMIFA") as requiring the preservation of the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulation to the contrary. As a result of this interpretation, Habitat retains in perpetuity (a) the original value of gifts donated to the endowment, (b) the original value of subsequent gifts to the endowment, and (c) accumulations to the endowment made in accordance with the direction of the applicable

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

donor gift instrument at the time the accumulation is added to the fund. Donor-restricted amounts not retained in perpetuity are subject to appropriation for expenditure by Habitat in a manner consistent with the standard of prudence prescribed by UPMIFA. In accordance with UPMIFA, Habitat considers the following factors in making a determination to appropriate or accumulate endowment funds:

- (1) The duration and preservation of the fund
- (2) The purposes of Habitat and the donor-restricted endowment fund
- (3) General economic conditions
- (4) The possible effect of inflation and deflation
- (5) The expected total return from income and the appreciation of investments
- (6) Other resources of Habitat
- (7) The investment policies of Habitat

Habitat has adopted investment and spending policies for endowment assets that attempt to provide a predictable stream of funding for granting purposes while seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that Habitat must use for a donor-specified purpose. Under this policy, as approved by the Board of Directors, the endowment assets are invested in a manner that is intended to produce long-term growth of capital without undue exposure to risk. Habitat expects its endowment fund to provide an average rate of return to outperform, over the long term (defined as rolling five-year periods), a blended custom benchmark based on a current asset allocation policy of 70% MSCI All Country World Index and 30% Barclays US Aggregate Bond Index. Actual returns in any given year may vary from this amount.

To satisfy its long-term rate of return objectives, Habitat relies on a total return strategy in which investment decisions shall be made with the intent of maximizing the long-term total return of the portfolio through market value changes (realized and unrealized) and through earned income (dividends and interest).

Habitat has a policy of appropriating for distribution each year between 5 and 7 percent of its endowment funds' average fair value over the prior 12 quarters, or a greater percentage as voted upon by the Board of Directors for special circumstances. In establishing this policy, Habitat considered the long-term expected return on its endowment.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

Changes in endowment net assets for the years ended June 30, 2022 and 2020, are as follows:

	2022	2021
Endowment fund with donor restrictions:		
Endowment net assets,		
beginning of year	\$ 1,267,235	\$ 985,067
Contributions	1,204	1,474
Investment return, net	(154,448)	330,172
Amount appropriated	(52,436)	(49,478)
Endowment net	<u>\$ 1,061,555</u>	<u>\$ 1,267,235</u>

11. LIQUIDITY AND AVAILABILITY OF RESOURCES

Financial assets available for general expenditure that are without donor or other restrictions that make them unavailable for use within one year of the statement of financial position date, are comprised of the following as of June 30, 2022 and 2021:

	2022	2021
Financial assets:		
Cash	\$ 1,364,000	\$ 1,571,000
Accounts receivable	937,000	191,000
Current portion of non-interest bearing mortgage	600,000	693,000
Total financial assets	<u>2,901,000</u>	<u>2,455,000</u>
Less those unavailable for general expenditure within one year:		
Contributions with donor restrictions	(111,000)	(124,000)
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,790,000</u>	<u>\$ 2,331,000</u>

Habitat has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. As more fully described in Note 7, Habitat also has a committed line of credit in the amount of \$600,000, which it could draw upon in the event of an unanticipated liquidity need. The amount available under the line of credit is dependent on any outstanding balance at the time of the draw.

12. CONTRIBUTED NONFINANCIAL ASSETS

The Financial Accounting Standards Board (FASB) issued an Accounting Standards Update (ASU) No. 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This new standard is intended to increase

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

transparency around contributed nonfinancial assets (also known as “gifts-in-kind” (GIK)) received by not-for-profit organizations, including information on how those assets are used and how they are valued. In addition, the ASU expanded disclosure requirements for GIK as disclosed below for June 30, 2022 and 2021.

	2022	2021	Usage in Programs/Activities	Donor- imposed Restrictions	Fair Value Techniques
Building materials, appliances, and supplies	\$ 13,435	\$ 36,716	New Home Ownership Program	None	Estimated U.S. wholesale prices (principal market) or identical or similar products using pricing data under a "like-kind" methodology considering the goods' condition and utility for use at the time of the contribution.
Legal services	60,004	13,836	New Home Ownership Program and Administrative	None	Estimated by applying the law firm's billable rates to the number of hours of services provided to Habitat.
	<u>\$ 73,439</u>	<u>\$ 50,552</u>			

13. GRANTS AWARDED

Habitat receives financial assistance from various sources, such as corporations and local governments. Habitat recognizes the award as grant revenue when the conditions stipulated in the grant agreement have been met. Funds by the grantors for the following programs may be requested for future program expenditures as of June 30:

Grant award	2022	2021
FHLB Affordable Housing Program award 201801-0042	154,030	190,466
FHLB Affordable Housing Program award 202101-0043	220,000	-0-
Self-Help Homeownership Program award 2017	-0-	38,800
Self-Help Homeownership Program award 2018	65,000	65,000
Self-Help Homeownership Program award 2019	65,000	65,000
Kentucky Housing Corporation Affordable Housing Trust Fund HB19-0096-01	-0-	48,500
Kentucky Housing Corporation Affordable Housing Trust Fund HR19-0096-01	7,637	41,507
Kentucky Housing Corporation Affordable Housing Trust Fund HB20-0096-01	77,000	147,000
Kentucky Housing Corporation Affordable Housing Trust Fund HR20-0096-01	107,500	107,500
Lexington-Fayette Urban County Government HOME Funds 2020	36,500	-0-
	<u>\$ 732,667</u>	<u>\$ 703,773</u>

Subsequent to June 30, 2022, Habitat forfeited \$154,030 of the undrawn award amount under FHLB 201801-0042 due to the inability to find sufficient qualifying families to meet grant requirements.

14. EMPLOYEE RETENTION CREDIT

The Coronavirus Aids, Relief, and Economic Security (CARES) Act included a provision for the Employee Retention Credit (ERC). Later, the Consolidated Appropriations Act of 2021, signed on

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

December 27, 2020, significantly modified and expanded the ERC provisions. The ERC is a fully refundable payroll tax credit for employers with 100 (for 2020) or 500 (for 2021) or fewer employees. In addition, the entity must have been at least partly closed due to a government order or report a decrease in gross receipts of at least 50% for the same quarter in 2019 (for calendar year 2020) and 20% (for calendar year 2021).

The ERC is equal to 50% of up to \$10,000 in qualified wages (including amounts paid toward allocable qualified health plan expenses) per full-time employee beginning March 13, 2020 and ending Dec. 31, 2020. As such, the maximum payroll credit is worth \$5,000 per employee for the 2020 calendar year.

The ERC is equal to 70% of the first \$10,000 in wages per employee per quarter for the first three quarters of calendar year 2021. That means this credit is worth up to \$7,000 per employee per quarter from January to September, and up to \$21,000 for the 2021 calendar year.

The Company recognized \$670,486 of ERC as grant revenue during the year ended June 30, 2022, and this amount is included in accounts and grants receivable as of June 30, 2022. The Company did not recognize any ERC grant revenue during the year ended June 30, 2021.

15. RETIREMENT

Habitat maintains a 401(k) defined contribution pension plan (the Plan) for employees 18 years of age and over who are enrolled in the Plan in the first day of the month after twelve months from the date of employment. Employee benefits are immediately vested. Habitat will contribute five percent (5%) of the eligible employees' gross wages. The Plan permits eligible employees to make voluntary contributions. During the years ended June 30, 2022 and 2021, Habitat contributed approximately \$64,000 and \$65,000, respectively.

16. LEASE AGREEMENTS

Habitat maintains a building lease under a non-cancelable operating lease that expires September 30, 2022, with options to renew through September 2032. In February 2022, Habitat agreed to exercise the option to extend the lease agreement through September 2027.

On December 29, 2017, Habitat entered into another building lease under a non-cancelable operating lease that expires June 30, 2028. As an incentive for Habitat to enter into the lease, the landlord provided free rent during the initial six months of the lease agreement. Effective August 31, 2022, Habitat early terminated this lease agreement.

Rent expense related to these leases totaled approximately \$307,000 and \$295,000 for the years ending June 30, 2022 and 2021, respectively.

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS JUNE 30, 2022 AND 2021

As of June 30, 2022, future minimum lease payments under these noncancelable operating lease agreements are as follows:

<u>Year ended June 30:</u>	
2023	\$ 232,937
2024	221,565
2025	225,990
2026	230,520
2027	235,125
2028 and thereafter	59,070
	<u>\$ 1,205,207</u>

17. RELATED-PARTY TRANSACTIONS

During the years ended June 30, 2022 and 2021, Habitat paid tithes and fees to Habitat for Humanity International, Inc. (HFHI) of \$23,000 and \$23,250, respectively. Additionally, Habitat received support from HFHI of approximately \$233,000 and \$333,000 during the years ended June 30, 2022 and 2021, respectively. Amounts paid to HFHI during the years ended June 30, 2022 and 2021, apart from tithes, fees, and principal payments (Note 8) were approximately \$0- and \$4,700, respectively.

18. CONCENTRATIONS

At June 30, 2022, the accounts and grants receivable balance included \$670,486 related to the ERC (Note 14). Of the remaining balance, 92% was due from two grantors. At June 30, 2021, approximately 94% of the receivable balance was due from two grantors.

19. RECENTLY ISSUED ACCOUNTING STANDARDS

On February 25, 2016, the FASB issued ASU No. 2016-02, *Leases (Topic 842)*. This new standard 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 not required to adopt this standard until its year ending June 30, 2023.

On June 17, 2016, the FASB issued ASU No. 2016-13, *Financial Instruments – Credit Losses: Measurement of Credit Losses on Financial Instruments* (Topic 326). This new standard, which Habitat is not required to adopt until its year ending June 30, 2024, is intended to improve

LEXINGTON HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

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financial reporting about expected credit losses on financial assets by requiring entities to use the new current expected credit loss approach that will generally result in early recognition of allowances for credit losses. The standard also requires a formal process to estimate current expected credit losses and will require specific, supporting calculations of the allowance for doubtful accounts supported by the formal process.

Habitat is presently evaluating the effect that these ASUs will have on its future financial statements, including related disclosures.