LEXINGTON HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023 AND 2022

LEXINGTON HABITAT FOR HUMANITY, INC.

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CPAs / ADVISORS

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

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

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Habitat 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 15 to the financial statements, Habitat adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases (Topic 842)*. 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.

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

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
November 16, 2023

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION
JUNE 30, 2023 AND 2022

ASSETS

	2023	2022 (restated)
Cash	$ 1,684,242	$ 1,364,019
Accounts and grants receivable	147,239	937,267
Inventory	5,097	4,896
Prepaid expenses	90,393	87,722
Non-interest bearing mortgage loans, net	3,412,402	3,818,326
Construction in progress	459,079	352,576
Land and property held for sale or development	609,141	785,028
Building, equipment, and right-of-use (ROU) assets, net	2,892,490	3,083,737
Investments at fair value	1,100,822	1,061,555
Total assets	$ 10,400,905	$ 11,495,126

LIABILITIES AND NET ASSETS

	2023	2022 (restated)
Liabilities		
Accounts payable	$ 147,517	$ 202,002
Accrued liabilities	183,284	155,129
Refundable advance	108,341	273,086
Operating lease liabilities	1,912,037	2,064,402
Notes payable	605,021	661,470
Total liabilities	2,956,200	3,356,089
Net assets		
Without donor restrictions	6,320,686	6,966,226
With donor restrictions		
Purpose restricted for the Love Your Neighborhood program	23,197	111,256
Endowment fund	1,100,822	1,061,555
Total net assets with donor restrictions	1,124,019	1,172,811
Total net assets	7,444,705	8,139,037
Total liabilities and net assets	$ 10,400,905	$ 11,495,126

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES
YEAR ENDED JUNE 30, 2023

	Without donor restrictions	With donor restrictions	Total
Revenues and other support			
ReStore sales, net	$ 1,579,978	$ -0-	$ 1,579,978
Transfers to homeowners	754,000	-0-	754,000
Grants	562,330	-0-	562,330
Program sponsorship revenue	415,964	37,498	453,462
Interest income from mortgage discount amortization	389,558	-0-	389,558
Contributions and fundraising:			
Cash and other financial assets	249,256	1,600	250,856
Nonfinancial assets	56,970	-0-	56,970
Gain from early payoff of mortgages	108,525	-0-	108,525
Investment return, net	-0-	94,442	94,442
Special events, net of donor benefits	77,602	-0-	77,602
Other income	71,428	-0-	71,428
Income from repair-program recipients	6,407	-0-	6,407
Loss on equipment dispositions	(29,921)	-0-	(29,921)
Released from restrictions and used for programs:			
Love Your Neighborhood	125,557	(125,557)	-0-
Endowment spending	56,775	(56,775)	-0-
Total revenues and other support	4,424,429	(48,792)	4,375,637
Expenses			
Program	4,008,377	-0-	4,008,377
Management and general	753,077	-0-	753,077
Fundraising	308,515	-0-	308,515
Total expenses	5,069,969	-0-	5,069,969
Change in net assets	(645,540)	(48,792)	(694,332)
Net assets, beginning of year	6,966,226	1,172,811	8,139,037
Net assets, end of year	$ 6,320,686	$ 1,124,019	$ 7,444,705

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
Employee retention tax credit	670,486	-0-	670,486
Interest income from mortgage discount amortization	450,203	-0-	450,203
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
Special events, net of donor benefits	161,798	-0-	161,798
Gain from early payoff of mortgages	185,851	-0-	185,851
Other income	15,502	-0-	15,502
Income from repair-program recipients	3,168	-0-	3,168
Income from rent-to-own pilot program	3,250	-0-	3,250
Gain on equipment dispositions	4,483	-0-	4,483
Investment return, net	-0-	(154,448)	(154,448)
Released from restrictions and used for programs:			
Love Your Neighborhood	59,466	(59,466)	-0-
Endowment spending	52,436	(52,436)	-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 FUNCTIONAL EXPENSES
YEAR ENDED JUNE 30, 2023

	Program Services	Management and General	Fundraising	Total
Salaries	$ 1,269,684	$ 438,908	$ 205,141	$ 1,913,733
Building materials and supplies	1,596,230	-0-	-0-	1,596,230
Employee fringe benefits and payroll taxes	316,344	120,974	70,464	507,782
Rent expense	25,680	-0-	-0-	25,680
Depreciation expense	50,114	62,570	-0-	112,684
Amortization expense, ROU assets	152,365	-0-	-0-	152,365
Repairs and maintenance	79,607	10,662	4,143	94,412
Office	89,413	11,951	20,496	121,860
Utilities	64,106	824	659	65,589
Insurance	52,993	12,819	12	65,824
ReStore cost of goods sold	16,765	-0-	-0-	16,765
Professional fees	81,222	47,331	135	128,688
Bank and merchant account charges	34,624	94	2,702	37,420
Special events, donor benefits	-0-	-0-	51,503	51,503
Interest expense	8,609	27,383	-0-	35,992
Interest expense, leases	64,850	-0-	-0-	64,850
Vehicle expense	33,853	-0-	-0-	33,853
Advertising	23,180	-0-	-0-	23,180
Habitat for Humanity International, Inc. fees and tithes	23,000	-0-	-0-	23,000
Partner family expenses	18,363	-0-	-0-	18,363
Telephone	6,461	1,128	587	8,176
Postage	1,563	851	2,323	4,737
Equipment rental	3,016	2,881	-0-	5,897
Seminars and conferences	9,679	8,052	823	18,554
Travel and training	2,641	6,649	1,030	10,320
Bad debt expense	75	-0-	-0-	75
Post sale home repairs	705	-0-	-0-	705
Total expenses	4,025,142	753,077	360,018	5,138,237
Less expenses included with revenues in the statement of activities	(16,765)	-0-	(51,503)	(68,268)
Total expenses included in the expense section of the statement of activities	$ 4,008,377	$ 753,077	$ 308,515	$ 5,069,969

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES (RESTATED)
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	94,331	-0-	-0-	94,331
Depreciation expense	55,747	66,916	-0-	122,663
Amortization expense, ROU assets	143,328	-0-	-0-	143,328
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
Interest expense, leases	69,642	-0-	-0-	69,642
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	3,500,134	596,462	351,885	4,448,481
Less expenses included with revenues in the statement of activities	(5,942)	-0-	(60,104)	(66,046)
Total expenses included in the expense section of the statement of activities	$ 3,494,192	$ 596,462	$ 291,781	$ 4,382,435

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022 (restated)
Operating Activities		
Change in net assets	$ (694,332)	$ 562,610
Adjustments to reconcile change in net assets to net change from operating activities:		
Bad debt expense	75	1,009
Depreciation and amortization	265,049	265,991
Transfers to homeowners - financed by Habitat	-0-	(44,288)
Imputed interest income from non-interest bearing mortgage loans	(389,558)	(450,203)
Realized and unrealized losses (gains) on investments	(65,747)	183,317
(Gain) loss on disposal of assets	29,921	(4,483)
Changes in operating assets and liabilities:		
Accounts and grants receivable	789,953	(747,599)
Inventory	(201)	444
Prepaid expenses	(2,671)	(14,953)
Construction in progress	(106,503)	20,116
Land and property held for sale or development	175,887	(541,961)
Accounts payable	(54,485)	58,023
Accrued liabilities	28,155	5,107
Refundable advance	(164,745)	26,717
Operating lease liabilities	(152,365)	(143,328)
Net cash flows from operating activities	(341,567)	(823,481)

See accompanying notes to financial statements.

LEXINGTON HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2023 AND 2022

	2023	2022 (restated)
Investing Activities		
Proceeds from sales of property and equipment	-0-	5,000
Purchases of property and equipment	(103,723)	(51,676)
Non-interest bearing mortgage loan payments received	795,482	913,973
Proceeds from sales of investments	135,003	235,717
Purchases of investments	(108,523)	(213,354)
Net cash flows from investing activities	718,239	889,660
Financing Activities		
Net payments on line of credit	-0-	(200,000)
Payments on notes payable	(56,449)	(73,124)
Net cash flows from financing activities	(56,449)	(273,124)
Net change in cash	320,223	(206,945)
Cash, beginning of year	1,364,019	1,570,964
Cash, end of year	$ 1,684,242	$ 1,364,019
Cash payments for:		
Interest on debt	$ 35,992	$ 23,960
Supplemental non-cash investing and financing transactions:		
Discount on current year non-interest bearing mortgage loans	$ -0-	$ 65,712
Transfer of rental program property to construction in progess	$ -0-	$ 76,882

See accompanying notes to financial statements.

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 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.

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, 2023 and 2022, the amounts of cash in excess of federally insured limits totaled $1,469,069 and $1,162,944, respectively.

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, 2023 and 2022, 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 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 a ReStore location 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.

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 from the homeowner and from third-party payors, which include governmental agencies. Included in grants revenue for the year ended June 30, 2023 and 2022 is approximately $377,000 and $288,000, respectively, related to such third-party payor arrangements. Included in accounts receivable at June 30, 2023 and 2022 is $140,000 and $222,000, respectively, related to such arrangements, and the balance was approximately $159,000 at July 1, 2021 and was collected in full in fiscal year 2022. 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.

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, 2023 and 2022, 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, 2022. 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, November 16, 2023, the date which the financial statements were available to be issued.

2. NON-INTEREST BEARING MORTGAGE LOANS, NET

Maturities of non-interest bearing mortgage loans receivable as of June 30, 2023 are as follows:

Year ended June 30:		
2024	$	596,410
2025		487,883
2026		453,185
2027		417,589
2028		400,008
2029 and thereafter		3,560,698
		5,915,773
Less discount		(2,503,371)
	$	3,412,402

As of June 30, 2022, non-interest bearing mortgage loans receivable, net of unamortized discounts, totaled $3,818,326.

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, 2023:

	Construction in progress	Land and property held for sale or development
Balance at June 30, 2022	$ 352,576	$ 785,028
Gifts in-kind and donations	16,702	-0-
Purchases and additional cost incurred	1,133,986	376,158
Transfers of land	552,045	(552,045)
Cost of completed repair projects transferred out	(160,863)	-0-
Cost of recycled homes transferred out	(389,406)	-0-
Cost of completed homes transferred out	(1,045,961)	-0-
Balance at June 30, 2023	$ 459,079	$ 609,141

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

	Construction in progress	Land and property held for sale or development
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	$ 352,576	$ 785,028

4. BUILDINGS, EQUIPMENT, AND RIGHT-OF-USE ASSETS, NET

Building, equipment, and right-of-use assets, net consist of the following at June 30:

	2023	2022
Buildings and improvements	$ 1,529,837	$ 1,545,693
Right-of-use-assets, operating leases	3,171,496	3,171,496
Land	89,250	89,250
Office furniture	75,073	139,026
Warehouse equipment	116,038	131,613
Vehicles	242,424	209,724
	5,224,118	5,286,802
Less accumulated depreciation and amortization	2,331,628	2,203,065
	$ 2,892,490	$ 3,083,737

5. FAIR VALUE MEASUREMENTS

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; and inputs that are derived principally from or corroborated by observable market data by correlation or other means.

Level 3: Inputs to the valuation methodology are unobservable and significant to the fair value measurement.

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, 2023 and 2022.

- Exchange-traded 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. Deemed to be actively traded.

Fair value measurements are as follows at June 30:

2023	Level 1	Level 2	Level 3	Total
Exchange-traded and closed-end funds	$ 995,658	$ -0-	$ -0-	$ 995,658
Total assets at fair value	$ 995,658	$ -0-	$ -0-	995,658
Cash				105,164
Total investments				$ 1,100,822

2022	Level 1	Level 2	Level 3	Total
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

Habitat's investments consist of the following at June 30:

	2023	2022
Cash	$ 105,164	$ 107,275
Exchange-traded funds:		
International	232,224	221,441
Large cap	220,519	202,675
Emerging markets	161,392	162,452
Small cap	142,099	135,598
Other	47,842	89,472
Real estate	63,788	46,894
Fixed income	127,794	95,748
	$ 1,100,822	$ 1,061,555

6. LINE OF CREDIT

At June 30, 2023 and 2022, 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 8.25% and 4.75% at June 30, 2023 and 2022, respectively. The current agreement expires in March 2024. The line of credit is secured by the assignment of mortgages of properties located in Lexington, Kentucky with an aggregate carrying value of approximately $734,000 at June 30, 2023. The outstanding balance on the line of credit as of June 30, 2023 and 2022 was $-0- each year, respectively.

7. NOTES PAYABLE

Notes payable as of June 30 consist of the following:

		2023		2022
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.	$	60,259	$	65,417
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.		58,375		81,972
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 (8.25% at June 30, 2023). Secured by land and improvements thereon located at 700 Loudon Avenue, Lexington, Kentucky with a net book value of approximately $813,000 at June 30, 2023.		119,159		127,178
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 the prime rate (8.25% at June 30, 2023), and is secured by property and land located at 700 East Loudon Avenue, Lexington, Kentucky with a net book value of approximately $813,000 at June 30, 2023.		367,228		386,903
Total	$	605,021	$	661,470

The following is a summary of debt maturities as of June 30, 2023:

Year ended June 30:		
2024	$	51,765
2025		51,277
2026		53,946
2027		53,040
2028		52,968
2029 and thereafter		342,025
	$	605,021

8. NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions are restricted for the following purposes at June 30:

	2023	2022
Donor-restricted endowment fund:		
Restricted in perpetuity	$ 1,022,306	$ 1,020,706
Accumulated investment gains subject to satisfaction of donor purpose restrictions	78,516	40,849
Restricted for the Love Your Neighborhood program	23,197	111,256
	$ 1,124,019	$ 1,172,811

9. 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 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.

Changes in endowment net assets for the years ended June 30 are as follows:

2023	Accumulated Investment Earnings Subject to Purpose Restrictions	Perpetually Restricted	Total
Endowment net assets, beginning of year	$ 40,849	$ 1,020,706	$ 1,061,555
Contributions	-0-	1,600	1,600
Investment return, net	94,442	-0-	94,442
Amount appropriated for expenditure	(56,775)	-0-	(56,775)
Endowment net assets, end of year	$ 78,516	$ 1,022,306	$ 1,100,822

	2022		
	Accumulated Investment Earnings Subject to Purpose Restrictions	Perpetually Restricted	Total
Endowment net assets, beginning of year	$ 247,091	$ 1,020,144	$ 1,267,235
Contributions	-0-	1,204	1,204
Investment return, net	(153,806)	(642)	(154,448)
Amount appropriated for expenditure	(52,436)	-0-	(52,436)
Endowment net assets, end of year	$ 40,849	$ 1,020,706	$ 1,061,555

10. 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:

	2023	2022
Financial assets:		
Cash	$ 1,684,242	$ 1,364,019
Accounts receivable	147,239	937,267
Current portion of non-interest bearing mortgage loans	596,410	613,791
Total financial assets	2,427,891	2,915,077
Less those unavailable for general expenditure within one year:		
Contributions with donor restrictions	(23,197)	(111,256)
Financial assets available to meet cash needs for general expenditures within one year	$ 2,404,694	$ 2,803,821

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 6, 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.

11. 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 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 the years ended June 30.

Description	2023	2022	Usage in Programs/Activities	Donor-imposed Restrictions	Fair Value Techniques
Building materials, and appliances	$ 16,702	$ 13,435	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.
Professional services	40,268	60,004	Administrative	None	Estimated by applying the firm's billable rates to the number of hours of services provided to Habitat.
	$ 56,970	$ 73,439			

12. 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	2023	2022
FHLB Affordable Housing Program award 201801-0042	$ -0-	$ 154,030
FHLB Affordable Housing Program award 202101-0043	81,500	220,000
FHLB Affordable Housing Program award 202201-0043	125,000	-0-
Self-Help Homeownership Program award 2018	-0-	65,000
Self-Help Homeownership Program award 2019	-0-	65,000
KHC AHTF HR19-0096-01	-0-	7,637
KHC AHTF HB20-0096-01	-0-	77,000
KHC AHTF HR20-0096-01	47,737	107,500
KHC AHTF HB22-0096-01	210,000	-0-
KHC AHTF HB23-0096-01	60,000	-0-
LHUCG HOME 2020 Funds	36,500	36,500
LFUCG HOME 2022 Funds	18,500	-0-
	$ 579,237	$ 732,667

13. EMPLOYEE RETENTION CREDIT

Habitat occasionally receives government assistance in the form of grants. Habitat evaluates whether these grants are unconditional or conditional based on the absence or presence of barriers and any right of return provisions. Receipt of funds for conditional contributions are recorded as a refundable advance in the balance sheet until conditions are satisfied. Once satisfied, the refundable advance is released into other revenue.

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 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.

Habitat 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 and was received in fiscal year 2023.

14. 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, 2023 and 2022, Habitat contributed approximately $60,000 and $64,000, respectively.

15. LEASE AGREEMENTS AND CHANGE IN ACCOUNTING PRINCIPLE

Habitat adopted the new lease accounting standard issued by the Financial Accounting Standards Board (FASB) and codified in the Accounting Standards Codification (ASC) as Topic 842 (ASC 842), as of July 1, 2021. The lease standard in ASC 842 intended to improve financial reporting about leasing transactions by requiring entities to recognize on the balance sheet 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 ASC 842) of twelve months or less are not required to be reflected on an entity's balance sheet.

Habitat applied full retrospective approach to all leases agreements when adopting ASC 842. Habitat determined the cumulative effect of applying the new standard as of the beginning of the first historical period presented, and adjusted revenue and expenses for all prior periods presented in the year of adoption of the new standards. As of July 1, 2021, Habitat's total assets and total liabilities increased by $2,207,730 as a result of ASC 842. The most significant impact was the recognition of right-of-use (ROU) assets under operating leases and operating lease liabilities for operating leases. The adoption of ASC 842 had an impact on the balance sheets and statements cash flows but did not have an impact on the statements of income. Below is a table which reflects the changes to amounts previously reported.

	As of and for the year ended June 30, 2022		
	As previously reported	Implementation of ASC 842	As currently reported
Statement of Financial Position, Assets:			
Building, equipment, and right-of-use (ROU) assets, net	$ 1,019,335	$ 2,064,402	$ 3,083,737
Statement of Financial Position, Liabilities:			
Operating lease liabilities	$ -0-	$ 2,064,402	$ 2,064,402
Statement of Functional Expenses:			
Rent expense	$ 307,301	$ (212,970)	$ 94,331
Amortization expense, ROU assets	-0-	143,328	143,328
Interest expense, leases	-0-	69,642	69,642
	$ 307,301	$ -0-	$ 307,301
Statement of Cash Flows:			
Depreciation and amortization	$ 122,663	$ 143,328	$ 265,991
Change in operating lease liabilities	-0-	(143,328)	(143,328)
	$ 122,663	$ -0-	$ 122,663

Habitat recognizes right-of-use (ROU) assets and lease liabilities for leases with terms greater than 12 months or leases that contain a purchase option that is reasonably certain to be exercised. Leases are classified as either finance or operating leases. This classification dictates whether lease expense is recognized based on an effective interest method or on a straight-line basis over the term of the lease.

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

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. Habitat management has determined it is more likely than not that Habitat will exercise its option to extend the lease through September 2032.

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.

Habitat's ROU assets and lease liabilities are recognized on the lease commencement date in an amount that represents the present value of future lease payments over the lease term. Habitat utilizes its collateralized incremental borrowing rate commensurate to the lease term as the discount rate for its leases unless Habitat can specifically determine the lessor's implicit rate. Certain lease contracts contain fixed minimum amounts for non-lease components such as maintenance and utilities. Habitat has made a policy election to not separate the lease and non-lease components, and thus recognize a single lease component for its right-of-use assets and lease liabilities. The operating lease ROU asset includes any lease payments made and excludes lease incentives, if any.

In evaluating contracts to determine if they qualify as a lease, Habitat considers factors such as if it has obtained substantially all of the rights to the underlying asset through exclusivity, if Habitat can direct the use of the asset by making decisions about how and for what purpose the asset will be used and if the lessor has substantive substitution rights. Furthermore, Habitat assesses whether it is reasonably certain to exercise options to extend or terminate a lease considering all relevant factors that create economic incentive to exercise such options, including asset, contract, market, and entity-based factors. These evaluations may require significant judgment.

Following are Habitat's lease cost components for the years ended June 30:

	2023	2022
Operating lease cost	$ 152,365	$ 143,328
Variable lease cost	25,680	94,331
Total lease expense	$ 178,045	$ 237,659

The lease agreement includes scheduled increases in rental payments which are included in the calculation of lease liability.

Additional information regarding cash payments under Habitat's operating lease during 2023 and 2022, as well as the inputs used in determining the ROU asset and liability at June 30, 2023 and 2022, are as follows:

	2023	2022
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 217,215	$ 212,970
Weighted-average lease term, operating leases	9.25 years	10.25 years
Weighted-average discount rate, operating leases	3.25%	3.25%

Per the accompanying statement of financial position, operating lease liabilities is $1,912,037 at June 30, 2023. Principal maturities are as follows for the years ended June 30:

2024	$ 161,807
2025	171,636
2026	181,895
2027	192,570
2028	203,703
Thereafter	1,000,426
Total	$ 1,912,037

Future minimum lease payments are as follows for the years ended June 30:

2024	$	221,565
2025		225,990
2026		230,520
2027		235,125
2028		239,835
Thereafter		1,073,475
Total	$	2,226,510

16. RELATED-PARTY TRANSACTIONS

During the years ended June 30, 2023 and 2022, Habitat paid tithes and fees to Habitat for Humanity International, Inc. (HFHI) of $23,000 and $23,000, respectively. Additionally, Habitat received support from HFHI of approximately $165,000 and $233,000 during the years ended June 30, 2023 and 2022, respectively.

17. CONCENTRATIONS

At June 30, 2022, the accounts and grants receivable balance included $670,486 related to the ERC (Note 13). Of the remaining balance, 92% was due from two grantors. At June 30, 2023, approximately 97% of the receivable balance was due from two grantors.

18. RECENTLY ISSUED ACCOUNTING STANDARDS

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 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 this ASU will have on its future financial statements, including related disclosures.