



DASZKALBOLTON
accountants & advisors

Habitat for Humanity of Palm Beach County, Inc.

Financial Statements

June 30, 2022 and 2021

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Independent Auditors' Report

To the Board of Directors
Habitat for Humanity of Palm Beach County, Inc.
Riviera Beach, Florida

We have audited the accompanying financial statements of Habitat for Humanity of Palm Beach County, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, and the related statements of activities and changes in net assets, 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 the Organization as of June 30, 2022, and the changes in its net assets and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America ("US GAAP").

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with US GAAP, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one (1) year after the date that the financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion.

Continued from previous page

Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Organization's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization'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.

Wagtail Capital LLP

Boca Raton, Florida
April 5, 2023

Habitat for Humanity of Palm Beach County, Inc.
 Statements of Financial Position
 June 30, 2022 and 2021

<u>ASSETS</u>		
	<u>2022</u>	<u>2021</u>
Assets:		
Cash and cash equivalents	\$ 460,500	\$ 727,614
Restricted cash - escrow deposits	181,613	179,543
Restricted cash - neighborhood stabilization program	1,103,616	1,010,648
Unconditional promises to give, net	389,386	867,610
Accounts receivable - trade	133,810	123,807
Mortgage notes receivable, net	2,741,676	3,235,671
Investments - endowment fund	30,444	36,040
Inventory - ReStore and Thrift store	800,472	740,119
Inventory - homes under construction	411,817	242,926
Inventory - homes held for resale	39,734	70,100
Inventory - land	131,063	49,199
Other assets	38,452	187,308
Property and equipment, net	2,341,578	2,345,674
Total assets	<u>\$ 8,804,161</u>	<u>\$ 9,816,259</u>
 <u>LIABILITIES AND NET ASSETS</u> 		
Liabilities:		
Accounts payable	\$ 140,319	\$ 147,303
Accrued expenses	385,268	525,215
Escrow deposits	282,518	179,543
Line of credit	1,039,270	339,270
Debt	1,668,894	2,262,159
Total liabilities	<u>3,516,269</u>	<u>3,453,490</u>
Net assets:		
Without donor restriction	4,937,892	5,952,769
With donor restriction	350,000	410,000
Total net assets	<u>5,287,892</u>	<u>6,362,769</u>
Total liabilities and net assets	<u>\$ 8,804,161</u>	<u>\$ 9,816,259</u>

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

Habitat for Humanity of Palm Beach County, Inc.
 Statements of Activities and Changes in Net Assets
 For the Years Ended June 30, 2022 and 2021

	2022	2021
Net assets without donor restriction:		
Support:		
In-kind contributions	\$ 3,295,924	\$ 2,546,844
Contributions and gifts	1,335,768	1,563,193
Governmental grants	117,225	34,827
Special events	80,575	4,541
Net sale of donated merchandise (less value of donated inventory sold of \$3,215,440 in 2022 and \$2,456,154 in 2021)	(281)	(90)
Total support	<u>4,829,211</u>	<u>4,149,315</u>
Revenues and gains:		
Program service revenue:		
Homes sold (net of mortgage discounts of \$142,095 in 2022 and \$426,605 in 2021)	129,505	253,255
Discount amortization	524,633	224,789
Other	63,461	208,472
Gain on sale of mortgage notes receivable	36,056	523,740
Paycheck protection program forgiveness	473,065	469,617
Gain (loss) on insurance settlement proceeds	-	347,404
Interest income	-	10,653
Total revenues and gains	<u>1,226,720</u>	<u>2,037,930</u>
Satisfaction of program restrictions releasing from donor restricted net assets	<u>280,350</u>	<u>867,187</u>
Total support, revenue and release of donor restricted net assets	<u>6,336,281</u>	<u>7,054,432</u>
Expenses and losses:		
Program services	4,425,667	3,045,936
Supporting services:		
ReStore	1,811,738	1,745,177
Thrift store	324,985	280,218
Management and general	580,503	554,167
Fundraising and development	208,265	438,019
Total supporting services	<u>2,925,491</u>	<u>3,017,581</u>
Total expenses and losses	<u>7,351,158</u>	<u>6,063,517</u>
Change in net assets without donor restriction	<u>(1,014,877)</u>	<u>990,915</u>
Net assets with donor restriction:		
Contributions	220,350	250,000
Net assets released from donor restriction	(280,350)	(867,187)
Change in net assets with donor restriction	<u>(60,000)</u>	<u>(617,187)</u>
Change in net assets	<u>(1,074,877)</u>	<u>373,728</u>
Net assets, beginning of year	<u>6,362,769</u>	<u>5,989,041</u>
Net assets, end of year	<u>\$ 5,287,892</u>	<u>\$ 6,362,769</u>

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

Habitat for Humanity of Palm Beach County, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2022

	Program Services	Supporting Services				Total Supporting Services	Total
		ReStore	Thrift Store	Management & General	Fundraising & Development		
Personnel costs:							
Salaries and contractors	\$ 1,090,573	\$ 944,141	\$ 190,078	\$ 403,668	\$ 41,046	\$ 1,578,933	\$ 2,669,506
Employee benefits and taxes	161,120	77,420	13,475	78,331	39,228	208,454	369,574
Total personnel costs	<u>1,251,693</u>	<u>1,021,561</u>	<u>203,553</u>	<u>481,999</u>	<u>80,274</u>	<u>1,787,387</u>	<u>3,039,080</u>
Other expenses:							
Home construction costs	2,540,119	-	-	-	-	-	2,540,119
Rent	149,731	336,074	13,658	10,845	9,996	370,573	520,304
Insurance	122,093	48,254	17,539	17,971	22,493	106,257	228,350
Office	61,483	63,408	14,255	12,657	20,940	111,260	172,743
Promotional	29,652	49,995	7,416	420	1,943	59,774	89,426
Interest	26,798	30,936	-	6,152	-	37,088	63,886
Repair and maintenance	22,207	97,242	18,705	2,438	26,733	145,118	167,325
Professional fees	96,523	1,130	547	38,559	3,006	43,242	139,765
Fundraising	18,276	-	25	-	33,787	33,812	52,088
Utilities	9,792	63,344	20,132	1,531	1,411	86,418	96,210
Telephone	18,695	10,219	10,898	3,587	5,030	29,734	48,429
Travel	43,209	27,334	3,438	3,604	(400)	33,976	77,185
Volunteer/education	13,928	851	529	4,137	1,201	6,718	20,646
Miscellaneous	(7,831)	(119)	(129)	(6,190)	10	(6,428)	(14,259)
Taxes and licenses	2,784	3,685	1,228	11	10	4,934	7,718
Tithe and contribution	5,000	-	-	-	-	-	5,000
Total other expenses	<u>3,152,459</u>	<u>732,353</u>	<u>108,241</u>	<u>95,722</u>	<u>126,160</u>	<u>1,062,476</u>	<u>4,214,935</u>
Total expenses before provision for depreciation	<u>4,404,152</u>	<u>1,753,914</u>	<u>311,794</u>	<u>577,721</u>	<u>206,434</u>	<u>2,849,863</u>	<u>7,254,015</u>
Provision for depreciation	<u>21,515</u>	<u>57,824</u>	<u>13,191</u>	<u>2,782</u>	<u>1,831</u>	<u>75,628</u>	<u>97,143</u>
Total expenses	<u>\$ 4,425,667</u>	<u>\$ 1,811,738</u>	<u>\$ 324,985</u>	<u>\$ 580,503</u>	<u>\$ 208,265</u>	<u>\$ 2,925,491</u>	<u>\$ 7,351,158</u>

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

Habitat for Humanity of Palm Beach County, Inc.
Statement of Functional Expenses
For the Year Ended June 30, 2021

	Program Services	Supporting Services				Total Supporting Services	Total
		ReStore	Thrift Store	Management & General	Fundraising & Development		
Personnel costs:							
Salaries and contractors	\$ 854,818	\$ 731,665	\$ 160,820	\$ 408,555	\$ 307,954	\$ 1,608,994	\$ 2,463,812
Employee benefits and taxes	160,593	90,594	17,686	21,786	26,746	156,812	317,405
Total personnel costs	<u>1,015,411</u>	<u>822,259</u>	<u>178,506</u>	<u>430,341</u>	<u>334,700</u>	<u>1,765,806</u>	<u>2,781,217</u>
Other expenses:							
Home construction costs	1,475,319	-	-	-	-	-	1,475,319
Rent	151,684	497,577	12,566	4,941	11,599	526,683	678,367
Insurance	108,674	53,377	17,434	27,892	16,560	115,263	223,937
Office	34,120	46,444	9,186	40,684	9,650	105,964	140,084
Promotional	5,196	57,411	9,000	1,267	19,078	86,756	91,952
Interest	45,100	5,906	3,289	223	-	9,418	54,518
Repair and maintenance	23,700	169,495	9,940	11,002	26,114	216,551	240,251
Professional fees	86,349	8,375	703	3,747	3,454	16,279	102,628
Fundraising	300	-	-	-	9,211	9,211	9,511
Utilities	22,629	16,006	10,509	4,850	770	32,135	54,764
Telephone	5,862	8,589	10,654	19,686	3,563	42,492	48,354
Travel	24,675	17,102	2,735	1,134	-	20,971	45,646
Volunteer/education	7,609	1,907	504	2,913	-	5,324	12,933
Miscellaneous	(1,661)	2,695	(47)	3,170	1,486	7,304	5,643
Taxes and licenses	5,833	14,364	82	332	3	14,781	20,614
Tithe and contribution	9,000	-	-	-	-	-	9,000
Total other expenses	<u>2,004,389</u>	<u>899,248</u>	<u>86,555</u>	<u>121,841</u>	<u>101,488</u>	<u>1,209,132</u>	<u>3,213,521</u>
Total expenses before provision for depreciation	<u>3,019,800</u>	<u>1,721,507</u>	<u>265,061</u>	<u>552,182</u>	<u>436,188</u>	<u>2,974,938</u>	<u>5,994,738</u>
Provision for depreciation	<u>26,136</u>	<u>23,670</u>	<u>15,157</u>	<u>1,985</u>	<u>1,831</u>	<u>42,643</u>	<u>68,779</u>
Total expenses	<u>\$ 3,045,936</u>	<u>\$ 1,745,177</u>	<u>\$ 280,218</u>	<u>\$ 554,167</u>	<u>\$ 438,019</u>	<u>\$ 3,017,581</u>	<u>\$ 6,063,517</u>

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

Habitat for Humanity of Palm Beach County, Inc.
Statements of Cash Flows
For the Years Ended June 30, 2022 and 2021

	<u>2022</u>	<u>2021</u>
Cash flows from operating activities:		
Change in net assets	\$ (1,074,877)	\$ 373,728
Activities to reconcile change in net assets to net cash (used in) provided by operating activities:		
Provision for depreciation	97,143	68,853
Amortization of discount on unconditional promises to give	-	(20,072)
Net investment return	5,596	(8,161)
Home sales through mortgage notes receivable	(429,937)	(654,200)
Net increase (decrease) in mortgage discounts	(133,515)	124,575
Value of donated inventory (ReStore and Thrift) sold	(3,275,513)	(2,534,322)
In-kind donation of inventory (ReStore and Thrift)	3,215,160	2,456,064
PPP forgiveness	(473,065)	-
Gain on sale of mortgage notes receivable	(272,161)	(487,296)
Loss on sale of property and equipment	-	1,395
Change in assets and liabilities:		
(Increase) decrease in:		
Unconditional promises to give	491,036	-
Accounts receivable - trade	(22,815)	1,158
Inventory - land	(81,864)	25,500
Inventory - homes under construction	(168,891)	197,103
Inventory - homes held for resale	30,366	-
Other assets	148,856	(72,461)
Increase (decrease) in:		
Accounts payable	(6,983)	(96,684)
Accrued expenses	(139,947)	27,132
Escrow deposits	102,975	67,756
Net cash used in operating activities	<u>(1,988,436)</u>	<u>(529,932)</u>
Cash flows from investing activities:		
Payments received on mortgage notes receivable	812,731	501,169
Proceeds from sale of mortgage notes receivable	516,877	839,270
Purchase of property and equipment	(45,526)	(1,218,053)
Net cash provided by investing activities	<u>1,284,082</u>	<u>122,386</u>
Cash flows from financing activities:		
Payments on line of credit	-	(991,729)
Advances on line of credit	700,000	550,000
Payments on debt	(167,722)	(649,244)
Proceeds from debt	-	1,323,065
Net cash provided by financing activities	<u>532,278</u>	<u>232,092</u>
Net decrease in cash, cash equivalents and restricted cash	<u>(172,076)</u>	<u>(175,454)</u>
Cash, cash equivalents and restricted cash, beginning of year	<u>1,917,805</u>	<u>2,093,259</u>
Cash, cash equivalents and restricted cash, end of year	<u>\$ 1,745,729</u>	<u>\$ 1,917,805</u>
Supplemental disclosure of cash activities:		
Cash paid for interest	<u>\$ 58,645</u>	<u>\$ 54,518</u>
Supplemental disclosure of cash activities:		
Vehicle purchased with note payable	<u>\$ 47,521</u>	<u>\$ -</u>

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

Note 1 – Organization and Purpose

Habitat for Humanity of Palm Beach County, Inc. (the "Organization") was founded in October 1986 as a nonprofit ecumenical Christian housing ministry affiliated with Habitat for Humanity International, Inc., an organization with affiliates worldwide that seeks to eliminate poverty housing and homelessness from the world, and to make decent shelter a matter of conscience and action. Through volunteer labor and donations of money and materials, the Organization builds simple decent houses with the help of low-income homeowner families. The Organization focuses its efforts in the areas of West Palm Beach, Lake Worth, Jupiter and western communities in the Glades area, Florida. The Organization also operates a Thrift Store and ReStores. The proceeds from these stores go towards the funding of the Organization's homebuilding efforts.

The houses built by the Organization and its volunteers are sold to partner families at no profit and are financed with affordable no-interest loans. The homeowner's monthly mortgage payments go into a revolving fund that is used to build more houses. In addition to a down payment and the monthly mortgage payment, each homeowner family invests hundreds of hours of their own labor into the building of their house as well as the houses of others.

Note 2 – Summary of Significant Accounting Policies

Basis of Presentation

The Organization's financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP"), which requires the Organization to report information regarding its financial position and activities according to the following net asset classifications:

Net assets without donor restrictions: Net assets that are not subject to donor-imposed restrictions and may be expended for any purpose in performing the primary objectives of the Organization. These net assets may be used at the discretion of Organization's management and the Board of Directors.

Net assets with donor restrictions: Net assets subject to stipulations imposed by donors, and grantors. Some donor restrictions are temporary in nature; those restrictions will be met by actions of the Organization or by the passage of time. Other donor restrictions are perpetual in nature, where by the donor has stipulated the funds be maintained in perpetuity. Donor restricted contributions are reported as increases in net assets with donor restriction. When a restriction expires, net assets are reclassified from net assets with donor restriction to net assets without donor restriction in the statements of activities and changes in net assets.

Revenue and Support

Contributions received are recorded as net assets with or without donor restricted support, depending on the existence and/or nature of any donor restrictions. All contributions are considered to be available without donor restrictions unless specifically restricted by the donor. Amounts received that are designated for a future period or restricted by the donor for specific purposes are reported as net assets with donor restriction. When a restriction expires, net assets with donor restriction are reclassified to net assets without donor restriction.

Note 2 – Summary of Significant Accounting Policies, continued

Revenue and Support, continued

Donated assets are valued at the estimated fair-market value at the date of receipt. Donated services are recognized as revenue only if the service requires specific expertise and is provided by professionals. Volunteers have also donated significant amounts of time in building the houses; however, such services have not been recognized as revenue. Revenue from the sale of inventory-Thrift and ReStore is recognized at the point-of-sale.

Revenues from the sale of houses are recognized upon the transfer to the homeowners and are based upon the amount the purchasers are able to pay. The revenues and related mortgages are recorded at the discounted value of payments to be received over the lives of the mortgage. Non-interest-bearing mortgages have been discounted based upon prevailing market rates for low-income housing at inception of the mortgages. Discounts are amortized and recognized as program service revenues in the statements of activities and changes in net assets using the effective interest method over the lives of the mortgages.

Grants from governmental agencies are recognized as revenue when the grant funds have been expended in accordance with the provisions of the respective agreements.

Cash Flows

The Organization presents its cash flows using the indirect method. The Organization considers all highly liquid investments with original maturities of three (3) months or less when acquired to be cash equivalents and excludes restricted cash.

Restricted Cash

Restricted cash consists of amounts not available for the Organization's operations. Restricted cash-escrow deposits are funds received from homeowners for the payment of property taxes and insurance included in the related escrow deposits liability. Escrow deposits may also include principal and interest payments received from homeowners and owed to financial institutions on mortgage notes receivable sold. Restricted cash-Neighborhood Stabilization Program ("NSP2") consists of principal payments received on mortgage notes receivable from homeowners related to homes sold under the NSP2 grant (see Commitments and Contingencies note).

Promises to Give

Promises to give are stated at fair value, which represents the net present value of future payments. Promises to give with due dates extending beyond one year are discounted to present value using a risk-free interest rate with similar term investments with an added amount for economic uncertainty. Unconditional promises to give are recognized as revenues in the period received and as assets, decreases of liabilities, or expenses depending on the form of the benefits received. Conditional promises to give are recognized when the conditions on which they depend are substantially met. Management records an allowance for uncollectible promises to give based on historical experience.

Note 2 – Summary of Significant Accounting Policies, continued

Mortgage Notes Receivable

When the Organization sells a home, it accepts two (2) installment notes in return. The first is an interest-free monthly installment note based upon the amount the purchaser is able to pay for a term of twenty-five (25) to thirty (30) years with principal payments due monthly. The amount recorded is at the face amount of the note, less an unamortized discount and an allowance for uncollectible accounts. Management records an allowance for uncollectible accounts on mortgage notes receivable based on a factor of approximately 1.5% to 2% of mortgages less the unamortized discount. In addition, management periodically reviews the mortgage notes receivable balances and provides an additional allowance for accounts which may be uncollectible. As of June 30, 2022 and 2021, the allowance for uncollectible accounts for mortgage notes receivable was \$68,494 and \$56,824, respectively.

The second note is a trust deed. It is interest-free and for a similar term of years as the first note. The amount is based on the difference between the appraised value of the home and the face amount of the first note. It is issued to ensure that the homeowner will not transfer, sell, or assign their title of interest in the property or to cease to occupy the property within a relatively short period of time. The second note is forgiven upon repayment of the first note. The second note and its resulting contingent gain are not recorded on either the statements of financial position or the statements of activities and changes in net assets. An estimate of the gain on the second trust deed cannot be made. It is unlikely that any gain will be realized.

Inventory – ReStore and Thrift

Substantially all inventories at ReStore and Thrift stores are donated. Inventory includes donated household building materials, appliances, furniture, and clothing that are sold at the Habitat ReStore and Thrift stores. Donated merchandise is recorded at its estimated fair market value, which is determined based on the future economic benefit.

Inventory – Land

Land is carried at cost when purchased or fair market value when acquired by gift. Land inventory is tracked by lot numbers and reduced when parcels are sold or when construction begins, and the parcels are transferred to inventory-homes under construction.

Inventory – Homes Under Construction

Homes under construction are carried at cost or at market value when materials are donated. The carrying amount represents the accumulated costs of houses under construction and land improvements. Construction costs consist of direct materials and labor costs incurred. Construction costs are expensed when the property is completed and sold to the homeowner. Costs accumulated in excess of the anticipated sales price are recorded in home construction costs in the statements of functional expenses. During the years ended June 30, 2022 and 2021, costs incurred in excess of the actual or anticipated selling prices (net of unamortized discounts) recognized in home construction costs in the statements of functional expenses were \$1,372,472 and \$986,747, respectively.

Note 2 – Summary of Significant Accounting Policies, continued

Inventory – Homes Held for Resale

Homes held for resale are carried at cost when purchased or market value when acquired by gift. The balance is expensed in home construction costs in the statements of functional expenses when the property is sold to the homeowner. Homes held for resale are written down to the anticipated selling prices of the homes (net of unamortized discounts) when prequalified families are identified. As of June 30, 2022 and 2021, homes held for resale consisted of one (1) and two (2) donated homes, respectively, which were carried at fair value and had not been written down as prequalified families had not been identified.

Property and Equipment

Property and equipment are carried at a cost if purchased or, if donated, at fair value on the date of donation, less accumulated depreciation. The Organization capitalizes all long-lived assets with an estimated useful life of more than three years and an original cost of \$800 or more. The Organization follows the policy of providing for depreciation using the straight-line method over the estimated useful life of each type of asset which is as follows:

Building and improvements	7 - 40 years
Furniture and fixtures	5 years
Vehicles	5 years
Machinery and equipment	5 years
Software	5 years
Leasehold improvements	4 - 10 years

Donations of property and equipment are reported as net assets without donor restricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as net assets with donor restricted support. Without donor stipulations regarding how long these donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated assets are placed in service, reclassifying net assets with donor restricted support to net assets without donor restricted support.

Maintenance and repairs to property and equipment are charged to expense when incurred. Additions and major renewals are capitalized. When assets are retired or otherwise disposed of, the cost or donated value and the related accumulated depreciation are removed from the accounts and any resulting gain or loss is reflected in income for the period.

Note 2 – Summary of Significant Accounting Policies, continued

Valuation of Long-Lived Assets

The Organization accounts for the valuation of long-lived assets under authoritative guidance issued by the Financial Accounting Standards Board (“FASB”), which requires that long-lived assets and certain intangible assets be reviewed for impairment whenever events or circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of the long-lived assets is measured by a comparison of the carrying amount of the asset to future undiscounted net cash flows expected to be generated by the assets.

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the estimated fair value of the assets. Assets to be disposed of are reported at the lower of the carrying amount or fair value, less costs to sell.

No indicators of impairment were identified for the years ended June 30, 2022 and 2021. Reconstruction costs will be capitalized as new property and depreciated over its useful life. All costs associated with clean-up and repairs are charged to expense when incurred.

Insurance Proceeds

The Organization accounts for insurance proceeds in accordance with the FASB Accounting Standards Codification (“ASC”) 450, *Contingencies*, if insurance proceeds are estimable and probable but have not yet been received, management will record a provision for insurance proceeds not to exceed the write off of the damaged property charged against operations. Conversely, a gain is only recorded if the insurance proceeds have been received and a gain exists.

In May 2019, the Organization’s Riviera Beach, Florida ReStore (the “Location”) experienced a fire that led to extensive property damage to the Location’s inventory, building and building improvements. During the years ended June 30, 2022 and 2021 the Organization received \$0 and \$347,404 in insurance proceeds, respectively.

Accrued Compensated Absences

Paid time off is accrued based on completed years of employment. Employees are paid for accrued paid time off as of the last day of employment subject to certain limitations. As of June 30, 2022 and 2021, the amount of accrued paid time off was \$72,649 and \$110,004, respectively.

Functional Expenses

Program and supporting services are charged with their direct expenses. Other expenses are allocated based on management's estimate of their proportionate share of total expenses.

Income Taxes

The Organization is a not-for-profit organization that is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code (“IRC”). Accordingly, no provision for income taxes has been recorded in the financial statements. The Organization is required to operate in conformity with the provisions of the IRC to maintain its exempt status. The Organization’s tax years subject to examination by tax authorities generally remain open for three (3) years from the date of filing.

Note 2 – Summary of Significant Accounting Policies, continued

Use of Estimates

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

Concentrations of Credit Risk

Financial instruments, which potentially subject the Organization to concentrations of credit risk, consist primarily of cash maintained in financial institutions in excess of the Federal Deposit Insurance Corporation (“FDIC”) insured limit of \$250,000. Although cash balances may exceed federally insured limits at times during the year, the Organization has not experienced and does not expect to incur any losses in such accounts. As of June 30, 2022 and 2021, the Organization had \$981,567 and \$1,624,341, respectively, held in excess of the FDIC limits. Cash is maintained with what management believes to be high quality financial institutions to limit its risk.

Recent Accounting Pronouncements Adopted

In September 2020, the FASB issued Accounting Standards Update (“ASU”) 2020-07, Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-For-Profit Entities for Contributed Nonfinancial Assets. The purpose of this ASU is to clarify the presentation and disclosure of contributed nonfinancial assets with an intention to provide the reader of the financial statements a clearer understanding of what type of financial assets were received and how they are used and recognized by the NFP.

Recent Accounting Pronouncements Not Yet Adopted

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). This standard is intended to improve financial reporting about leasing transactions. The ASU affects all companies and other organizations that lease assets such as real estate, airplanes, and manufacturing equipment. Under the new guidance, a lessee is required to recognize assets and liabilities for leases with lease terms of more than twelve (12) months. Consistent with current GAAP, the recognition, measurement, and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. However, unlike current GAAP – which requires only capital leases to be recognized on the balance sheet – this new ASU requires both types of leases to be recognized on the balance sheet. This ASU will take effect for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact of this pending new standard.

Note 2 – Summary of Significant Accounting Policies, continued

Reclassification

Certain amounts in the prior period financial statements have been reclassified to conform to the presentation of the current period financial statements. These reclassifications had no effect on the previously reported change in net assets.

Date of Management's Review

In preparing the financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through April 5, 2023, the date that the financial statements were available to be issued.

Note 3 – Unconditional Promises to Give

Unconditional promises to give are stated at fair value, which represents the net present value of future payments less an allowance for uncollectible accounts. As of June 30, 2022 and 2021, an allowance was not considered necessary. All unconditional promises to give are due within one (1) year of the date of the financial statements.

Note 4 – Mortgage Notes Receivable

The mortgage notes receivable are recorded at the face amount less the unamortized discounts. The discount rates for the years ended June 30, 2022 and 2021 are 7.49% and 7.23%, respectively. As of June 30, 2022 and 2021, the Organization has an allowance for uncollectible accounts of \$68,494 and \$56,824, respectively.

Note 4 – Mortgage Notes Receivable, continued

The outstanding balances consist of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Face amount of mortgage notes receivable	\$ 7,221,334	\$ 8,117,675
Unamortized discounts	(4,411,164)	(4,825,180)
Allowance for uncollectible accounts	<u>(68,494)</u>	<u>(56,824)</u>
Total mortgage notes receivable, net	<u>\$ 2,741,676</u>	<u>\$ 3,235,671</u>

At times, the Organization may sell mortgage notes receivable to financial institutions. During the years ended June 30, 2022 and 2021, the Organization sold mortgage notes receivable with a net book value of \$198,799 and \$351,874, respectively (including of unamortized discounts of \$318,078 and \$548,878, respectively). Subject to certain conditions, the Organization may be contingently liable to the financial institutions for non-performing mortgage notes receivable (see Commitments and Contingencies note).

Note 5 – Property and Equipment

Property and equipment used in operations consists of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Buildings and improvements	\$ 2,622,347	\$ 2,581,039
Vehicles	288,240	240,219
Leasehold improvements	153,808	153,808
Land	75,000	75,000
Machinery and equipment	33,062	33,062
Furniture and fixtures	41,920	41,920
Software	9,420	5,703
	<u>3,223,797</u>	<u>3,130,751</u>
Less: accumulated depreciation	<u>882,219</u>	<u>785,077</u>
Property and equipment, net	<u>\$ 2,341,578</u>	<u>\$ 2,345,674</u>

Depreciation expense for the years ended June 30, 2022 and 2021 totaled \$97,143 and \$68,853, respectively.

Note 6 – Line of Credit

On August 13, 2014, the Organization entered into a revolving line of credit with a bank, which permitted borrowings up to \$1,535,000 and bears interest at LIBOR plus 2.5%. The line has been amended to increase available borrowings to \$1,650,000 and extended the maturity date to August 30, 2022. As of June 30, 2022 and 2021, the balance of the line of credit was \$1,039,270 and \$339,270, respectively. The line is collateralized by mortgage notes receivable with a net book value of \$707,952 including unamortized discounts of \$1,114,212 as of June 30, 2022 and a net book value of \$745,408 including unamortized discounts of \$1,177,596 as of June 30, 2021.

Habitat for Humanity of Palm Beach County, Inc.
Notes to Financial Statements

Note 7 – Debt

Debt consists of the following:

	<u>2022</u>	<u>2021</u>
Note payable to bank with interest only payments at a rate of LIBOR plus 2.5%, collateralized by mortgage notes receivable with a net book value of \$272,373 (including unamortized discounts of \$395,831 in 2022 and \$282,338 (including unamortized discounts of \$414,959) in 2021, due August 2022 (see Subsequent Events foot note).	\$ 270,376	\$ 330,650
Note payable to bank with interest only payments at a rate of LIBOR plus 2.5%, collateralized by mortgage notes receivable with a net book value of \$321,116 (including unamortized discounts of \$534,932) in 2022 and \$384,150 (including unamortized discounts of \$560,936) in 2021, due August 2022 (see Subsequent Events foot note).	539,083	613,232
Mortgage payable to bank, due in 119 monthly principal payments of \$5,019 with a balloon payment of \$507,683 due at maturity. The note carries an interest rate of 3.65% and matures in April 2031.	815,874	845,212
Vehicle loan payable due in 120 monthly principal payments, collateralized by the vehicle.	43,561	-
Loan payable to bank pursuant to the PPP under Division A, Title I of the CARES Act with interest only payments at a rate of 1.00% per annum, payable monthly commencing in December of 2021. The Organization used the funds from the Loan for qualifying expenses and the balance and any accrued interest was forgiven in June 2022.	-	473,065
Total debt	<u>\$ 1,668,894</u>	<u>\$ 2,262,159</u>

Note 7 – Debt, continued

Annual maturities of long-term debt for the years following June 30, 2022 are as follows:

Years Ending June 30,	Amount
2023	\$ 851,891
2024	43,504
2025	44,773
2026	42,051
2027	35,415
Thereafter	651,260
	<u>\$ 1,668,894</u>

Note 8 – Net Assets with Donor Restrictions

As of June 30, 2022 and 2021, net assets with donor restrictions consists of the following:

	June 30, 2022			
	Time Restriction	Home Construction	Perpetuity	Total
Unconditional promise to give, net	\$ -	\$ 350,000	\$ -	\$ 350,000
Net assets with donor restrictions	<u>\$ -</u>	<u>\$ 350,000</u>	<u>\$ -</u>	<u>\$ 350,000</u>
	June 30, 2021			
	Time Restriction	Home Construction	Perpetuity	Total
Cash and cash equivalents	\$ -	\$ 10,000	\$ -	\$ 10,000
Unconditional promise to give, net	-	400,000	-	400,000
Net assets with donor restrictions	<u>\$ -</u>	<u>\$ 410,000</u>	<u>\$ -</u>	<u>\$ 410,000</u>

Note 9 – Donations of Assets, Materials and Services

In-kind contributions consist of the following for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Inventory - Thrift and ReStore	\$ 3,275,512	\$ 2,534,412
Home construction costs	20,412	12,432
Total in-kind contributions	<u>\$ 3,295,924</u>	<u>\$ 2,546,844</u>

Note 10 – Related Party Transaction

Habitat Housing Solutions, Inc. (“HHSI”) is a private nonprofit, community-based organization whose primary purpose is to provide in the communities it serves, decent, safe and sanitary housing to low-income households. HHSI qualifies as a Community Housing Development Organization (“CHDO”). In May 2021, HHSI and the Organization entered into an agreement with Palm Beach County to receive \$315,672 in funding from its HOME Investment Partnerships Program. The Organization and HHSI will use this funding to construct three homes to sell or lease to households having certain income levels. HHSI will act as the administrator of this funding and the Organization will act as the construction contractor. The Organization holds title to the three properties and has leased them to HHSI to provide HHSI site control thereby enabling them to undertake the construction of the desired housing units. Site control has been provided by the Organization to HHSI by means of a separate ground lease. These ground leases provide HHSI the ability to encumber the properties with the Organization and the leases will expire upon the issuance of a certificate of occupancy. Each ground lease requires HHSI, upon expiration of the lease, to transfer full ownership of the improvements to the Organization, at no cost to, or obligation by the Organization towards HHSI. The Organization shall, upon the completion of construction and the transfer of their ownership from HHSI to the Organization, sell the dwellings to a County approved income eligible household to be occupied as a principal place of residence, and if not sold within a specified period, shall be rented to a County approved income eligible household.

In order to facilitate the requirements under the HOME grant program, HHSI obtained lines of credit with a financial institution. The financial institution required the Organization to sign the loan agreements as co-borrower (see Commitments and Contingencies note).

Note 11 – Fair Value Measurements

FASB ASC 820-10, *Fair Value Measurement*, established a framework for measuring fair value. That framework provides a fair value hierarchy that prioritizes the inputs to valuation 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 measurements) and the lowest priority to unobservable inputs (Level 3 measurements).

The three (3) levels of the fair value hierarchy under FASB ASC 820-10 are described as follows:

Level 1 – Inputs to the valuation methodology are unadjusted quoted prices for identical assets or liabilities in active markets that the Organization 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.

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 used need to maximize the use of observable inputs and minimize the unobservable inputs.

The following section describes the valuation methodologies the Organization uses to measure its assets at fair value.

- Mutual funds are valued at the quoted net asset value of shares reported in the active market in which the mutual funds are traded.

Note 11 – Fair Value Measurements, continued

Fair Value on a Recurring Basis

Investments measured at fair value on a recurring basis are summarized below:

At June 30, 2022				
Description	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Investments:				
Mutual funds	\$ 30,444	\$ 30,444	\$ -	\$ -

At June 30, 2021				
Description	Assets			
	Measured at Fair Value	Fair Value Hierarchy Level		
		Level 1	Level 2	Level 3
Investments:				
Mutual funds	\$ 36,040	\$ 36,040	\$ -	\$ -

Note 12 – Commitments and Contingencies

Restricted Cash – Neighborhood Stabilization Program

In April 2010, the Organization entered into a Consortium Agreement with the Lake Worth Community Redevelopment Agency (“Lake Worth CRA”) to build and rehabilitate homes in the Lake Worth, Florida area. The project was funded by the Neighborhood Stabilization Program 2 (“NSP2”) under the American Recovery and Reinvestment Act of 2009 through the US Department of Housing and Urban Development (“HUD”). During the project, both grant funds and bank loan proceeds were used to build and rehabilitate homes. Upon completion, the homes were sold to homeowners meeting certain qualifications through long-term mortgage notes receivable.

Note 12 – Commitments and Contingencies, continued

Restricted Cash – Neighborhood Stabilization Program, continued

Under the terms of the grant, income from the project received from the use of grant funds is required to be used in support of affordable housing in the Lake Worth CRA service area. Principal payments on mortgage notes receivable related to this project are deposited into one bank account segregated from the Organization's operating account. Approval from the Lake Worth CRA must be obtained in order to use these funds. Upon close out of the grant, Lake Worth CRA and HUD will determine the ultimate disposition of the remaining assets and liabilities, which may include returning program income to Lake Worth CRA. The identified assets and liabilities included in the statements of financial position as of June 30, 2022 and 2021 related to the Lake Worth CRA/NSP2 project are as follows:

	<u>2022</u>	<u>2021</u>
Assets:		
Restricted cash - Neighborhood Stabilization Program	\$ 1,103,616	\$ 1,010,648
NSP2 Mortgage notes receivable, net	810,042	930,584
Total assets	<u>\$ 1,913,658</u>	<u>\$ 1,941,232</u>
Liabilities:		
Debt-note payable to bank	\$ 270,376	\$ 330,650
Debt-note payable to bank	539,082	613,232
Total liabilities	<u>\$ 809,458</u>	<u>\$ 943,882</u>

As of the date of management's review (see Date of Management's Review sub note), the grant has not been closed out. The Organization has not received a notice from Lake Worth CRA regarding the final disposition of the assets and liabilities subject to the NSP2 grant restrictions. Management has evaluated its contingent liability related to this agreement. As of and for the years ended June 30, 2022 and 2021, no contingent amounts have been recognized in the statements of financial position or the statements of activities and changes in net assets.

Mortgage Notes Receivable

The Organization entered into loan sale agreements with financial institutions which provided for the sale of certain mortgage notes receivable held by the Organization. Upon execution of the agreements, rights of ownership of specified mortgage notes receivable were transferred to the financial institutions in exchange for cash less a specified discount. The agreements contain provisions giving the financial institutions the unilateral right of recourse against the Organization for specific non-performing mortgages. At that time, the Organization may repurchase the non-performing mortgage at the current principal balance less the same percentage discount used when the mortgage was originally sold, or it may replace it with an unencumbered mortgage note receivable with a similar principal balance and remaining terms. As of June 30, 2022 and 2021, the balances of mortgage notes receivable sold to and held by financial institutions that are subject to replacement or repurchase were \$3,961,826 and \$3,716,777, respectively. Management has evaluated its contingent liability related to these agreements.

Note 12 – Commitments and Contingencies, continued

Mortgage Notes Receivable, continued

As of and for the years ended June 30, 2022 and 2021, no contingent amounts have been recognized in the statements of financial position or the statements of activities and changes in net assets.

Loan Guarantee

The Organization entered into agreements with Habitat Housing Solutions, Inc. (“HHSI”), a related party, for the construction of several homes under the HOME Investment Partnerships Program provided through Palm Beach County. As part of the grant program requirement, HHSI must request reimbursement from Palm Beach County after paying the Organization for construction services. To fulfill the requirement, HHSI obtained lines of credit with a financial institution. The financial institution required the Organization to sign the loan agreements as co-borrower. A line of credit was signed in March 2017 for a maximum amount of \$353,679 and matured in December 2018. As of June 30, 2022 and 2021, the balance of the line of credit owed by HHSI to the financial institution is \$0. Management evaluated its contingent liability related to the line of credit. As of and for the years ended June 30, 2022 and 2021, no contingent amounts have been recognized in the statements of financial position or the statements of activities and changes in net assets.

Operating Leases

The Organization leases equipment and the premises it occupies at four (4) locations for office space, retail facilities, and an education center. Certain rental agreements include various escalation clauses based on increased operating costs. In addition, one of the leases also provides for a lease incentive. Under this agreement, rent expense is recognized on a straight-line basis. The difference between the base rent payments made and the amount of rent expense recognized is included in accrued expenses. As of June 30, 2022 and 2021, the amounts of the liability included in the statement of financial position are \$155,162 and \$178,050, respectively. The rental agreements having an original term of more than one year expire on various dates through November 2025. Rent expense totaled \$520,304 and \$678,367 for the years ended June 30, 2022 and 2021, respectively.

Future minimum base lease payments, excluding common area maintenance, in connection with the leases for the years following June 30, 2022 are as follows:

<u>Years Ending June 30,</u>	<u>Amount</u>
2023	\$ 399,419
2024	378,493
2025	357,870
2026	150,945
Total future minimum base lease payments	<u>\$ 1,286,727</u>

Note 13 – Funds Held in Trust by Others

The Organization established a charitable endowment fund known as the Habitat for Humanity of Palm Beach County Building for a Lifetime (the “Fund”) with the Community Foundation for Palm Beach and Martin Counties (the “Community Foundation”). The earnings of the Fund have been restricted for the benefit of the Organization. Assets contributed to the Community Foundation for the benefit of the Organization are recorded as assets of the Organization. These “agency restricted funds” are pooled with the other assets of the Community Foundation for investment purposes.

The Organization's initial contribution of \$25,000 was matched with a \$25,000 grant from the Community Foundation and is not available for distribution and may not be removed from the Fund.

Funds held in trust by others by type of fund as of June 30, 2022:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Habitat for Humanity of Palm Beach County, Inc.			
Endowment fund	\$ 5,444	\$ 25,000	\$ 30,444

The changes in the Organization's endowment net assets were as follows for the year ended June 30, 2022:

	<u>Without Donor Restriction</u>	<u>With Donor Restriction</u>	<u>Total</u>
Endowment net assets, June 30, 2021	\$ 11,040	\$ 25,000	\$ 36,040
Net investment return (realized and unrealized)	(2,256)	-	(2,256)
Grants and other adjustments	(3,000)	-	(3,000)
Investment fees	(340)	-	(340)
Endowment net assets, June 30, 2022	<u>\$ 8,444</u>	<u>\$ 25,000</u>	<u>\$ 30,444</u>

Return Objectives and Risk Parameters

The Funds shall be invested by the Community Foundation in a long-term growth portfolio whose primary objective is long-term capital appreciation with an investment strategy of five (5) years or longer.

Spending Policy

All distributions from the Fund shall be in accordance with the Community Foundation's spending policy in effect during any fiscal year of the Community Foundation. Distributions may be made from income and capital appreciation but not from the endowment principal. The endowment principal is the sum of the value of the initial contribution establishing the Fund by the Organization and Community Foundation plus all subsequent contributions to the Fund.

Note 13 – Funds Held in Trust by Others, continued

Interpretation of Relevant Law

Management has interpreted the law as requiring donor restricted net assets in an endowment fund to remain restricted until appropriated for expenditure by the Organization following the donor's intended purpose. In accordance with the State Management of Institutional Funds Act, the Organization considers the following factors in making a determination to appropriate or accumulate donor restricted endowment funds:

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

Note 14 – Liquidity and Availability of Resources

The Organization's financial assets available to meet cash needs for general expenditure, without donor or other restrictions limiting their use, within one (1) year as of June 30, 2022 consist of:

Financial assets as of June 30, 2022:	
Cash and cash equivalents	\$ 460,500
Unconditional promises to give, net	389,386
Accounts receivable - trade	133,810
Mortgage notes receivable, net	2,741,676
Inventory - ReStore and Thrift	800,472
Total financial assets	<u>4,525,844</u>
Less: financial assets unavailable for general expenditure	
within one year due to:	
Unconditional promises to give, net, non-current	12,812
Mortgage notes receivable, net, neighborhood stabilization program	(810,042)
Mortgage notes receivable, net, non-current	(1,740,832)
Restricted by donors with purpose restrictions	<u>(350,000)</u>
Total financial assets unavailable for general expenditure	<u>(2,888,062)</u>
Total financial assets available within one year to meet cash needs for general expenditures	<u>\$ 1,637,782</u>

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities and other obligations come due.

Note 15 – Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported within the statements of financial position that sum to the total of the amounts shown in the statements of cash flows as of June 30:

	<u>2022</u>	<u>2021</u>
Cash, cash equivalents and restricted cash:		
Cash and cash equivalents	\$ 460,500	\$ 727,614
Restricted cash - escrow deposits	181,613	179,543
Restricted cash - neighborhood stabilization program	1,103,616	1,010,648
Total cash, cash equivalents and restricted cash	<u>\$ 1,745,729</u>	<u>\$ 1,917,805</u>

Note 16 – Subsequent Events

On November 17, 2022, Habitat for Humanity of Palm Beach County's board of directors voted and approved the merger of the affiliate with the Habitat for Humanity of South Palm Beach County, Inc. affiliate effective at the end of December 31, 2022. On the same date the board of directors of Habitat for Humanity of South Palm Beach County's affiliate also held a meeting to vote and approve the merger with the Palm Beach affiliate. The newly merged entity will be named Habitat for Humanity of Greater Palm Beach County, Inc. and be governed by 20 board members (10 from each of the previous affiliate's boards) to govern the new merged affiliate. Habitat for Humanity of Greater Palm Beach County, Inc. will include leadership from both preexisting affiliates. There was no consideration exchanged for the merger of the affiliates. The transaction qualifies as a merger under *FASB ASC 958-805* and the carryover method will be applied in merging the financial statements on the merger date.