

**HABITAT FOR HUMANITY OF CLEVELAND, INC.**

*Financial Statements*

*June 30, 2023 and 2022*

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*Financial Statements*

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### INDEPENDENT AUDITORS' REPORT

To the Board of Directors of:  
Habitat for Humanity of Cleveland, Inc.  
Cleveland, Tennessee

#### *Opinion*

We have audited the accompanying financial statements of Habitat for Humanity of Cleveland, Inc. (a nonprofit organization) which comprise the statement of financial position as of June 30, 2023 and 2022, and the related statements of activities, functional expenses, and cash flows for the year then ended, and the related notes to the financial statements.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Habitat for Humanity of Cleveland, Inc. (a nonprofit organization) as of June 30, 2023 and 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.

#### *Basis for Opinion*

We conducted our audit in accordance with auditing standards generally accepted 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 Habitat for Humanity of Cleveland, Inc. 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 these 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 for Humanity of Cleveland, Inc.'s ability to continue as a going concern within one 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 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 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 generally accepted auditing standards, we:

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

***Report on Summarized Comparative Information***

We have previously audited Habitat for Humanity of Cleveland, Inc.'s financial statements for the year ended June 30, 2022, and we expressed an unmodified audit opinion on those audited financial statements in our report dated October 20, 2022. In our opinion, the summarized comparative information presented herein as of and for the year ended June 30, 2022, is consistent, in all material respects, with the audited financial statements from which it has been derived.

*Wedgewood Accounting, PLLC*

WEDGEWOOD ACCOUNTING, PLLC  
Certified Public Accountants

Cleveland, Tennessee

November 7, 2023

**HABITAT FOR HUMANITY OF CLEVELAND, INC.***Statements of Financial Position**June 30, 2023 (with comparative totals for 2022)*

	June 30, 2023	June 30, 2022
<b>ASSETS</b>		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 572,503	\$ 939,951
Investments - certificates of deposit	1,000,000	0
ERC receivable	316,621	0
Interest receivable	11,988	0
Mortgages receivable, net - current portion	277,692	295,248
Pledges receivable, net - current portion	0	97,483
Construction in progress (homes)	742,826	24,408
Total Current Assets	<u>\$ 2,921,630</u>	<u>\$ 1,357,090</u>
NON-CURRENT ASSETS:		
Inventory	\$ 993,319	\$ 983,195
Investment - endowment	1,033,726	725,936
Mortgages receivable, net of discount	1,870,521	2,135,177
Property and equipment, net of accumulated depreciation	1,094,244	1,047,296
Total Non-Current Assets	<u>\$ 4,991,810</u>	<u>\$ 4,891,604</u>
TOTAL ASSETS	<u>\$ 7,913,440</u>	<u>\$ 6,248,694</u>
<b>LIABILITIES AND NET ASSETS</b>		
CURRENT LIABILITIES:		
Accounts payable	\$ 49,681	\$ 31,579
Taxes payable	9,151	10,582
Lease payable - current portion	702	1,404
Notes payable - current portion	149,639	112,263
Total Current Liabilities	<u>\$ 209,173</u>	<u>\$ 155,828</u>
NON-CURRENT LIABILITIES:		
Lease payable - long-term portion	\$ 0	\$ 702
Notes payable - long-term portion	1,127,904	1,364,168
Total Non-Current Liabilities	<u>\$ 1,127,904</u>	<u>\$ 1,364,870</u>
TOTAL LIABILITIES	<u>\$ 1,337,077</u>	<u>\$ 1,520,698</u>
NET ASSETS		
Without donor restrictions	\$ 6,109,994	\$ 4,302,059
With donor restrictions	466,369	425,937
TOTAL NET ASSETS	<u>\$ 6,576,363</u>	<u>\$ 4,727,996</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 7,913,440</u>	<u>\$ 6,248,694</u>

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

**HABITAT FOR HUMANITY OF CLEVELAND, INC.***Statements of Activities**For the Year Ended June 30, 2023 (with comparative totals for 2022)*

	Without Donor Restrictions	With Donor Restrictions	2023 Totals	2022 Totals
<b>REVENUES, GAINS AND OTHER SUPPORT</b>				
Cash contributions	\$ 1,029,967	\$ 0	\$ 1,029,967	\$ 243,417
Grants	651,283	0	651,283	757,599
In-kind contributions	50,043	0	50,043	6,283
Proceeds from sale of houses	272,890	0	272,890	358,568
ReStore gross income	740,340	0	740,340	652,315
Interest income	23,894	9,850	33,744	14,425
Realized gain on sale of investments	14,350	11,873	26,223	42,326
Unrealized gain/(loss) on investments	25,509	21,105	46,614	(164,894)
Late payment fees and other income	4,475	0	4,475	4,694
Mortgage discount amortization	363,981	0	363,981	189,673
Gain on sale of fixed assets	5,603	0	5,603	0
Satisfaction of program restrictions	2,396	(2,396)	0	0
	<u>\$ 3,184,731</u>	<u>\$ 40,432</u>	<u>\$ 3,225,163</u>	<u>\$ 2,104,406</u>
<b>EXPENDITURES</b>				
Program services	\$ 1,102,755	\$ 0	\$ 1,102,755	\$ 1,357,947
Management and general	196,789	0	196,789	183,683
Fundraising	77,252	0	77,252	71,148
	<u>\$ 1,376,796</u>	<u>\$ 0</u>	<u>\$ 1,376,796</u>	<u>\$ 1,612,778</u>
<b>CHANGE IN NET ASSETS</b>	<b>\$ 1,807,935</b>	<b>\$ 40,432</b>	<b>\$ 1,848,367</b>	<b>\$ 491,628</b>
<b>NET ASSETS - BEGINNING OF YEAR</b>	<b>\$ 4,302,059</b>	<b>\$ 425,937</b>	<b>\$ 4,727,996</b>	<b>\$ 4,236,368</b>
<b>NET ASSETS - END OF YEAR</b>	<b><u>\$ 6,109,994</u></b>	<b><u>\$ 466,369</u></b>	<b><u>\$ 6,576,363</u></b>	<b><u>\$ 4,727,996</u></b>

**HABITAT FOR HUMANITY OF CLEVELAND, INC.***Statements of Functional Expenses**For the Year Ended June 30, 2023 (with comparative totals for 2022)*

	<u>Program Services</u>	<u>Management and General</u>	<u>Fund Raising</u>	<u>2023 Total</u>	<u>2022 Total</u>
Cost of houses transferred	\$ 192,688	\$ 0	\$ 0	\$ 192,688	\$ 421,050
Mortgage discounts	55,460	0	0	55,460	191,048
ReStore costs	372,131	0	0	372,131	292,197
Special events	34,839	0	0	34,839	2,058
Tithes and donations	6,400	0	0	6,400	6,000
Payroll	281,777	84,112	54,673	420,562	402,564
Payroll tax	21,938	6,548	4,256	32,742	31,189
Accounting, professional and legal fees	34,271	0	0	34,271	27,939
Bad debt expense	0	0	0	0	43,228
Supplies and office	7,663	8,636	0	16,299	11,248
Telephone	1,925	4,016	0	5,941	4,764
Information technology	10,028	0	0	10,028	16,291
Occupancy	11,781	8,770	0	20,551	19,180
Interest	0	2,870	0	2,870	748
Taxes and fees	0	15,888	240	16,128	14,300
Insurance	41,073	0	0	41,073	24,038
Auto, travel, training and conferences	7,309	3,861	485	11,655	12,142
Depreciation and amortization	0	58,067	0	58,067	58,748
Printing and advertising	1,137	0	17,598	18,735	16,298
Postage and shipping	0	3,041	0	3,041	3,600
Dues and memberships	8,665	980	0	9,645	9,161
Community awareness and promotion	5,583	0	0	5,583	1,196
Family selection and other program costs	8,087	0	0	8,087	3,790
<b>TOTALS</b>	<u>\$ 1,102,755</u>	<u>\$ 196,789</u>	<u>\$ 77,252</u>	<u>\$ 1,376,796</u>	<u>\$ 1,612,778</u>

**HABITAT FOR HUMANITY OF CLEVELAND, INC.***Statements of Cash Flows**For the Year Ended June 30, 2023 (with comparative totals for 2022)*

	<b>2023</b>	<b>2022</b>
Cash flows from operating activities:		
Change in net assets	<u>\$ 1,848,367</u>	<u>\$ 491,628</u>
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation and amortization	\$ 58,067	\$ 58,748
Gain on sale of fixed assets	(5,603)	0
Change in assets and liabilities affecting cash flows:		
Construction in progress	(718,418)	145,373
Inventory	(10,124)	(408,907)
ERC receivable	(316,621)	0
Interest receivable	(11,988)	0
Pledges receivable	97,483	(52,755)
Prepaid assets	0	1,447
Accounts payable	18,102	1,643
Taxes payable	<u>(1,431)</u>	<u>(644)</u>
Total adjustments	<u>\$ (890,533)</u>	<u>\$ (255,095)</u>
Net cash provided by operating activities	<u>\$ 957,834</u>	<u>\$ 236,533</u>
Cash flows from investing activities:		
Capital expenditures	\$ (105,015)	\$ (10,975)
Proceeds from sale of fixed assets	5,603	0
Investment in endowment fund	(307,790)	121,968
Investment in certificates of deposit	(1,000,000)	0
Change in mortgages receivable	<u>282,212</u>	<u>(10,063)</u>
Net cash provided by (used in) investing activities	<u>\$ (1,124,990)</u>	<u>\$ 100,930</u>
Cash flows from financing activities:		
Payments on notes payable	\$ (198,888)	\$ (177,684)
Borrowings on notes payable	0	78,750
Payments on capital lease	<u>(1,404)</u>	<u>(1,404)</u>
Net cash used in financing activities	<u>\$ (200,292)</u>	<u>\$ (100,338)</u>
Net change in cash and cash equivalents	\$ (367,448)	\$ 237,125
Cash and cash equivalents at beginning of year	<u>939,951</u>	<u>702,826</u>
Cash and cash equivalents at end of year	<u><u>\$ 572,503</u></u>	<u><u>\$ 939,951</u></u>
Supplemental disclosure of cash flow information:		
Cash paid during the year for:		
Interest	\$ 2,870	\$ 748



# HABITAT FOR HUMANITY OF CLEVELAND, INC.

Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

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## Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Nature of Activities

Habitat for Humanity of Cleveland, Inc. (the "Organization") was incorporated in July 1990 as an interdenominational organization for the purpose of working with economically disadvantaged people, helping them create a better environment in which to live. The Organization, using contributions and volunteer labor, constructs houses and sells them to low-income persons in Bradley County, Tennessee at a value that approximates cost. Habitat for Humanity of Cleveland, Inc. is affiliated with Habitat for Humanity International, but is independent operationally and functionally.

The Organization pursues its mission by building and rehabilitating homes using donated supplies, volunteer labor, contributed funds and properties. The Organization then sells these homes for a price that is less than market value to pre-selected, low-income families. These families provide 300-400 hours of work and \$800 as down payment as their investment in the home for which they have been chosen. The contributions of supplies, labor, cash and properties enable the Organization to provide these families with no-interest financing. Monthly principal payments from families who buy homes from the Organization are added to the pool of resources used to build more homes for more families in need.

### Basis of Accounting

The accounts of the Organization are maintained, and the accompanying consolidated financial statements have been prepared, on the accrual basis of accounting. Accordingly, revenues are recognized when earned, and expenses are recorded when the obligation is incurred.

### Financial Statement Presentation

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

*Without Donor Restrictions* - Resources over which the Board of Directors had discretionary control.

*With Donor Restrictions* - Those resources subject to donor-imposed restrictions which will be satisfied by actions of the Organization or passage of time. The Organization had \$466,369 and \$425,937 in such assets at June 30, 2023 and 2022, respectively.

Non-operating activities include all non-cash activities relating to discounting contracts for deed and mortgages receivable and debt.

### Liquidity

Assets are presented in the accompanying Statements of Financial Position according to their nearness of conversion to cash and liabilities according to the nearness of their maturity and resulting use of cash (see Note 2 for more detail).

### Cash and Cash Equivalents

For purposes of the Statements of Cash Flows, the Organization considers all bank and similar deposits without donor restrictions, demand accounts, money market funds and short-term investments with an original maturity of three months or less to be cash equivalents, except those held for long-term investment. The Organization maintains bank accounts with balances, which at times may exceed federally-insured limits. However, the Organization has not experienced any losses to date.

### Investments

Investments are initially recorded at cost if purchased or, if donated, at fair market value on the date received. Investment securities are reflected at market value, and realized and unrealized gains and losses are recognized as changes in net assets without donor restrictions, unless restricted by donor stipulations, in which case the amounts are reflected as changes in net assets with donor restrictions until those stipulations are met.

# HABITAT FOR HUMANITY OF CLEVELAND, INC.

Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

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## Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

### Land and Land Improvements

Land and land improvements are carried at cost and represent land available for current and future development in fulfillment of the Organization's mission.

### Homes Under Construction

Homes under construction are stated at cost and include land under development, developed lots, direct and indirect costs of housing construction and capitalized interest, property taxes and overhead incurred during the development period. Cost is determined by the specific identification and per unit methods. Land and off-site development costs associated with homes under construction are included in construction in progress in the accompanying Statements of Financial Position.

### Inventory

Inventories owned by the Organization include both inventory purchased for the ReStores and land to be used in future home construction. Both are stated at historical cost. As of June 30, 2023 and 2022, the Organization had \$4,909 and \$15,992 in ReStore inventories, respectively, and \$988,410 and \$967,203 in land inventories, respectively.

### Property and Equipment

Property and equipment are carried at cost or, if donated, at the approximate fair value at the date of donation. Such donations are reported as support without donor restrictions unless the donor has designated the donated asset for a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire land, buildings or equipment are reported as support with donor restrictions. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service or purchased and reclassifies net assets with donor restrictions to net assets without donor restrictions at that time. Property and equipment are depreciated using the straight-line method calculated over the estimated useful lives of five through thirty-nine years. Acquisitions of property/equipment in excess of \$1,500 and all expenditures for repairs, maintenance, renewals and betterments that materially prolong the useful lives of the assets are capitalized.

### Mortgages Receivable

The Organization has a policy of selling affordable housing with interest-free mortgages. Therefore, mortgages receivable do not have a stated interest rate. Receivables are assessed individually for collectability based on the surrounding facts and circumstances and management's past history. The Organization does not maintain an allowance for uncollectible mortgages receivable because the houses are sold at below market prices and the Organization has the ability to foreclose on properties and resell them to collect any past due amounts.

All mortgages and contracts for deed are due based on the notes' terms (See Note 6). Management believes all mortgages and contracts for deed receivable are realizable through either collection or foreclosure proceeds, if not collected.

### Contributions and Pledges Receivable

Contributions received are recorded as support with or without donor restrictions depending on the existence and/or nature of any donor stipulations. Contributions are reported as support with donor restrictions and are then reclassified to net assets without donor restrictions upon expiration of the time or use restriction. However, restricted contributions whose requirements are met in the same reporting period are shown as support without donor restrictions.

Contributions and pledges receivable that are expected to be collected within one year are recorded at their net realizable value. Contributions receivable that are expected to be collected in future years are recorded at the present value of estimated future cash flows. The discounts on these amounts are computed using a risk-free rate (5%) applicable to the year in which the contribution is made. Amortization of the discount is included in contribution revenue. Management periodically evaluates the collectability of pledges, and any amounts deemed uncollectable are charged to bad debt expense. During the year ended June 30, 2023, the Organization recognized no bad debt expense.

## HABITAT FOR HUMANITY OF CLEVELAND, INC.

Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

### Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

#### Contributed Goods and Services

Many individuals volunteer their time and perform a variety of tasks that assist the Organization in its program services, thrift shop and fund raising campaigns. The Organization received more than 10,000 volunteer hours in each of the years ended June 30, 2023 and 2022. The volunteer hours are not reflected in the financial statements since the services do not meet the criteria for recognition. Additionally, many individuals also volunteer in the construction of the houses; see the policy on construction cost.

Donations of investments are recorded at fair market value on the date received. Donations of inventory items held for resale are recognized when sold because the Organization does not have an objective measurement basis for determining fair value.

#### Revenue Recognition and Sales

Sales of completed homes are accounted for under direct method because the Organization continues to have obligations with respect to the property. Under the direct method, no gain or receivable is recognized until closing, and any payments received from the potential buyers are recorded as liabilities.

#### Construction Costs

House costs consist of land and direct construction costs. The value of donated labor related to building construction is not recorded because a substantial number of volunteers and homeowners have made significant contributions of their time; however, this labor does not require a specialized skill.

#### Functional Allocation of Expenses

The costs of providing various support to the Organization's operations, as well as other management and general activities, have been summarized on a functional basis in the Statements of Activities and Functional Expenses. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

#### Income Taxes

The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code and, therefore, has no provision for federal income taxes. In addition, the Organization qualifies for the charitable contribution deduction under Section 170 of the Code and has been classified as an organization that is not a private foundation. Income determined to be unrelated business taxable income (UBTI) would be taxable.

The Organization follows the policy that clarifies the accounting for uncertainty in income taxes recognized in an organization's financial statements. The policy prescribes a recognition threshold and measurement principles for the financial statement recognition and measurement of tax positions taken or expected to be taken on a tax return that are not certain to be realized. The Organization determined it has no uncertain tax positions.

The Organization files as a tax-exempt organization by filing Federal Form 990. As of June 30, 2023, its 2020 through 2022 fiscal year tax returns are open for examination by the Internal Revenue Service.

#### Advertising Costs

The Organization uses advertising to promote its programs in the surrounding communities. Advertising costs are expensed as incurred. Advertising expense for the years ended June 30, 2023 and 2022, was \$18,735 and \$16,298, respectively.

#### Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, 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.

# HABITAT FOR HUMANITY OF CLEVELAND, INC.

Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

## Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (Continued)

### Recent Accounting Guidance

The Financial Accounting Standards Board issued ASU 2016-14, *Presentation of Financial Statements for Not-for-Profit Entities*, which modified the presentation methodology of ASC 958. The Organization has adjusted the presentation of its financial statements accordingly, applying the changes retrospectively to the comparative period presented. The new standard affects the following aspects of the Organization's financial statements: 1) the unrestricted net asset class has been renamed "net assets without donor restrictions"; 2) the temporarily and permanently restricted net asset classes have been combined to form a single net asset class called "net assets with donor restrictions"; 3) the notes to the financial statements now contain a new disclosure regarding the liquidity and availability of financial resources (Note 2); and 4) the statement of functional expenses has been changed from a supplemental statement to a required financial statement.

## Note 2 - LIQUIDITY AND AVAILABILITY

The Organization's financial assets available within one year of the Statement of Financial Position for general expenditures are as follows:

	<u>06/30/2023</u>	<u>06/30/2022</u>
Cash and cash equivalents	\$ 572,503	\$ 939,951
Investment - certificates of deposit	1,000,000	0
ERC receivable	316,621	0
Interest receivable	11,988	0
Mortgages receivable, net - current portion	277,692	295,248
Pledges receivable, net - current portion	<u>0</u>	<u>97,483</u>
Total Financial Assets	<u>\$ 2,178,804</u>	<u>\$ 1,332,682</u>

Contributions received by the Organization with donor restrictions are to be used in accordance with the associated purpose restrictions. In addition, the Organization receives support without donor restrictions; such support has historically represented a large portion of the annual program funding needs. Sales from the ReStore are considered support without donor restrictions and are used for general expenditures as they are received.

As part of the Organization's liquidity management, it has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. Discussed in greater detail in Note 9, the Organization maintains three line-of-credit agreements with different banks totaling \$395,000, of which \$355,520 and \$351,760 remained available for draw at June 30, 2023 and 2022, respectively.

## Note 3 - INVESTMENTS

In June 2020, the Organization received an endowment in the amount of \$437,735 from an anonymous donor to further its philanthropic goals. This endowment is held at the Community Foundation of Cleveland and Bradley County and is included in net assets with donor restrictions in the Statements of Financial Position and Activities. Of the total received, \$388,570 is deemed "corpus" and is to remain intact for the purpose of providing perpetual, charitable support to the Organization. Distributions in excess of the amount dictated by the application of the Community Foundation's spending policy may be made to the Organization if either of the following conditions are met: 1) acquiring/renovating capital assets; 2) or facing unexpected financial needs that are unlikely to recur. Newly-established funds can begin making distributions using the spending policy after the fund has been in effect for four quarters. Earnings will be reclassified as net assets without donor restrictions once they are deemed distributable from the endowment. Additional contributions are allowed to be made to this fund, whether or not they contain donor restrictions.

# HABITAT FOR HUMANITY OF CLEVELAND, INC.

Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

## Note 3 - INVESTMENTS - (Continued)

The Organization has several investments that are valued at fair market value. Accounting Standards Codification 820, Fair Value Measurements, requires assets and liabilities that are stated at their fair value, which is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, be classified into one of three levels. The levels are determined by the inputs used to measure the fair value. They are as follows:

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

Level 2 - Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

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

### Investments

The Organization did not have any Level 3 investments for either year ended June 30, 2023 or 2022. The Level 1 investment includes the endowment fund of the Organization, while the Level 2 investment includes two \$500,000 certificates of deposit at two separate banks.

Fair values of assets measured on a recurring basis are as follows:

<u>06/30/2023</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Hope for Humanity Endowment	\$ 1,033,726	\$ 1,033,726	\$ 0
Certificates of Deposit	1,000,000	0	1,000,000
<u>06/30/2022</u>	<u>Fair Value</u>	<u>Level 1</u>	<u>Level 2</u>
Hope for Humanity Endowment	\$ 725,936	\$ 725,936	\$ 0

## Note 4 - PROPERTY AND EQUIPMENT, NET

Property and equipment at June 30, 2023 and 2022, consists of the following:

	<u>Balance</u> <u>06/30/2022</u>	<u>Additions and</u> <u>(Deletions)</u>	<u>Balance</u> <u>06/30/2023</u>
Building - 300 Grove Avenue	\$ 1,033,092	\$ 0	\$ 1,033,092
Building - ReStore Expansion	491,458	48,515	539,973
Equipment and Furniture	36,324	6,000	42,324
Cars and Trucks	85,584	19,883	105,467
	<u>\$ 1,646,458</u>	<u>\$ 74,398</u>	<u>\$ 1,720,856</u>
Less: Accumulated Depreciation	<u>(599,162)</u>	<u>(27,450)</u>	<u>(626,612)</u>
Property and Equipment, net	<u>\$ 1,047,296</u>	<u>\$ 46,948</u>	<u>\$ 1,094,244</u>

For the years ended June 30, 2023 and 2022, depreciation expense was \$58,067 and \$58,748, respectively.

## Note 5 - PLEDGES RECEIVABLE

Unconditional promises to give are recorded as receivables and revenue when received. The Organization distinguishes between contributions received for each net asset category in accordance with donor-imposed restrictions. Pledges are recorded after being discounted to the anticipated net present value of the future cash flows.

**HABITAT FOR HUMANITY OF CLEVELAND, INC.**

Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

**Note 5 - PLEDGES RECEIVABLE - (Continued)**

Pledges are expected to be realized in the following periods ended June 30th:

	<u>2023</u>	<u>2022</u>
In one year or less	\$ 0	\$ 97,483
Between one year and five years	0	0
Thereafter	<u>0</u>	<u>0</u>
Total Pledges Receivable	<u>\$ 0</u>	<u>\$ 97,483</u>

**Note 6 - MORTGAGES RECEIVABLE, NET OF DISCOUNT**

Mortgage notes secured by houses sold are non-interest bearing and have original terms of fifteen to forty years. Interest is imputed at market rates at the date of the note and amortized over the term of the note using the interest method. The mortgage discount rates utilized for calculating the mortgage discount range from 5.00% to 7.85%. The mortgages receivable and discounts are as follows at June 30, 2023 and 2022:

	<u>2023</u>	<u>2022</u>
First Mortgages Receivable	\$ 3,596,845	\$ 4,148,882
Third Mortgages Receivable	<u>92,484</u>	<u>131,180</u>
Total Mortgages Receivable	\$ 3,689,329	\$ 4,280,062
Less: Unamortized discounts	<u>(1,541,116)</u>	<u>(1,849,637)</u>
Mortgages Receivable, Net of Discount	<u>\$ 2,148,213</u>	<u>\$ 2,430,425</u>

Maturities of mortgages receivable are summarized as follows:

Amounts due in:	
Less than one year	\$ 277,692
One to five years	1,110,768
Thereafter	<u>2,300,869</u>
Total	<u>\$ 3,689,329</u>

These maturities are based on mortgage receivable balances at June 30, 2023. These balances are subject to change in future years as mortgages are added, paid off or result in default.

**Note 7 - HABITAT RESTORES**

The Organization operates a resale store in Cleveland, Tennessee, in which donated items are sold to the public. The items on hand at year-end have not been valued by management as it is unreasonable to do so until the items are sold. Gross sales for the fiscal years ended June 30, 2023 and 2022, of \$740,340 and \$652,315, respectively, are recorded as revenue; related expenses for the two years of \$372,131 and \$292,197, respectively, are included as program expenses in these financial statements. The ReStore had net income for the years ended June 30, 2023 and 2022, of \$368,209 and \$360,118, respectively.

# HABITAT FOR HUMANITY OF CLEVELAND, INC.

Notes to Financial Statements

For the Years Ended June 30, 2023 and 2022

## Note 8 - NOTES PAYABLE

At June 30, 2023 and 2022, notes payable consisted of the following:

	Interest Rate	Monthly Payment	Balance 06/30/2023	Balance 06/30/2022
First Horizon Bank - Building Loan - due 02/27/2033 (secured by land and building)	0.00%	\$ 2,018	\$ 234,117	\$ 258,336
First Horizon Bank - CITC Loan - due 01/22/2024 (unsecured)	0.00%	313	39,480	43,240
Pinnacle Bank - Clingan Drive Loan - due 09/27/2032 (secured by Clingan Drive property)	Variable	804	92,528	99,300
THDA - New Start Loans - various due dates (secured by land and building)	0.00%	4,979	911,418	1,075,555
		<b>Totals</b>	<b>\$ 1,277,543</b>	<b>\$ 1,476,431</b>

Required principal payments for future fiscal years ended June 30th consist of the following amounts:

2024	\$ 149,639
2025	110,158
2026	110,159
2027	110,158
2028	110,159
Thereafter	687,270
	<u>\$ 1,277,543</u>

## Note 9 - LINES OF CREDIT

The Organization has an unsecured line of credit for \$150,000 with Pinnacle Bank. No draws were outstanding on this line as of June 30, 2023. This agreement was renewed with the bank in the current fiscal year on August 1, 2022. The interest rate on this line of credit is Prime plus 0.75%, and its due date is July 31, 2023.

In the current fiscal year, on August 25, 2022, the Organization also renewed an unsecured line-of-credit arrangement with Southern Heritage Bank for \$120,000 that has an interest rate of Prime and a due date of August 24, 2023. No draws on this line of credit were outstanding as of June 30, 2023.

An unsecured line-of-credit arrangement is held with First Horizon Bank. There was \$39,480 drawn on this line as of June 30, 2023, while the total funds available for draw were \$125,000. This line of credit is zero-interest, and its due date is January 22, 2024.

## Note 10 - DONATIONS IN-KIND

Many volunteers have donated significant amounts of their time to the Organization's special events and program services. These services include carpenters working on Habitat homes and volunteers working in the resale business. Also, certain materials and supplies were donated for the construction of Organization homes and store inventory. The value of these donated services, materials and supplies that are included in the financial statements and the corresponding expenses for the years ended June 30, 2023 and 2022, are \$50,043 and \$6,283, respectively, in general donations.

**HABITAT FOR HUMANITY OF CLEVELAND, INC.**

*Notes to Financial Statements*

*For the Years Ended June 30, 2023 and 2022*

**Note 11 - LEASE COMMITMENTS**

The Organization leases a copier for its administrative office under a capital lease agreement that has a capitalized cost of \$5,616. Accumulated depreciation related to this copier includes \$4,025 and \$2,902 in Note 4 for the years ended June 30, 2023 and 2022, respectively, and \$1,123 and \$1,123 in depreciation expense on the Statements of Functional Expenses, respectively. Future minimum lease payments as of June 30, 2023, are as follows:

2024	\$	702
2025		0
2026		0
2027		0
2028		0
Thereafter		0
	\$	<u>702</u>

**Note 12 - SUBSEQUENT EVENTS**

In preparing these financial statements, the Organization has evaluated events and transactions for potential recognition or disclosure through November 7, 2023, the date the financial statements were available to be issued.

On April 17, 2023, the Habitat for Humanity of Cleveland, Inc. filed amended Form 941-X's with the Internal Revenue Service to claim the Employee Retention Credit for the last three quarters of 2020 and for the first three quarters of 2021. The total credit recorded as a receivable at June 30, 2023, and included in current year grant revenues is \$316,621. As of the date of these financial statements, this amount has not yet been received by the Organization due to ERC claim processing delays at the Internal Revenue Service.