GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

JUNE 30, 2023

PBMares[SM]

ASSURANCE, TAX & ADVISORY SERVICES

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

TABLE OF CONTENTS

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Greater Fredericksburg Habitat for Humanity, Inc.

Opinion

We have audited the financial statements of Greater Fredericksburg Habitat for Humanity, Inc. (the Organization), which comprise the statements of financial position as of June 30, 2023 and 2022, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements (collectively, the financial statements).

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

Basis for Opinion

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

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with 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 the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with 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.

PBMares, LLP

Fredericksburg, Virginia
December 8, 2023

FINANCIAL STATEMENTS

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION
Years Ended June 30, 2023 and 2022

	2023	2022
ASSETS		
Current Assets		
Cash	$ 970,320	$ 924,175
Accounts receivable	-	3,336
Grants receivable	25,000	-
Mortgage loans receivable - current portion	34,649	40,562
Inventory	1,879	3,408
Other current assets	708	708
Total current assets	1,032,556	972,189
Property and Equipment		
Leasehold improvements	220,744	220,744
Vehicles	69,992	72,992
Furniture, fixtures, and equipment	61,713	61,713
	352,449	355,449
Less: accumulated depreciation	(222,598)	(198,291)
Property and equipment, net	129,851	157,158
Non-Current Assets		
Mortgage loans receivable, net of current portion less discount	234,968	300,374
Land and land engineering costs	52,300	356,230
Construction in progress	100,529	75,272
Property for resale	43,310	43,310
Other assets	24,688	14,688
Right of use assets	1,968,611	-
Total non-current assets	2,424,406	789,874
Total assets	$ 3,586,813	$ 1,919,221
LIABILITIES AND NET ASSETS		
Current Liabilities		
Notes payable - current portion	$ 164,886	$ 242,030
Accounts payable	51,727	51,058
Accrued liabilities	42,683	57,530
Deferred straight-line rent - current portion	-	12,436
Down payments	-	500
Lease liabilities - current portion	148,150	-
Total current liabilities	407,446	363,554
Non-Current Liabilities		
Notes payable, net of current portion	20,532	29,555
Deferred straight-line rent, net of current portion	-	121,562
Lease liabilities - noncurrent portion	1,976,640	-
Total non-current liabilities	1,997,172	151,117
Net Assets		
Without donor restrictions	1,145,240	1,333,535
With donor restrictions	36,955	71,015
Total net assets	1,182,195	1,404,550
Total liabilities and net assets	$ 3,586,813	$ 1,919,221

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2023

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue, Gains, and Other Support			
ReStore sales income	$ 1,049,590	$ -	$ 1,049,590
Sale of completed homes	205,000	-	205,000
Grants	89,048	44,000	133,048
Mortgage discount amortization	107,819	-	107,819
Contributions	91,269	350	91,619
Gain from mortgages retired pre-term	83,193	-	83,193
Special events	18,740	-	18,740
Interest income	9,474	-	9,474
Other income	1,007	-	1,007
Satisfaction of donor restrictions	78,410	(78,410)	-
Total revenue, gains and other support	1,733,550	(34,060)	1,699,490
Expenses			
Program services	1,528,422	-	1,528,422
Management and general	250,047	-	250,047
Fundraising	143,376	-	143,376
Total expenses	1,921,845	-	1,921,845
Change in net assets	(188,295)	(34,060)	(222,355)
Net Assets, beginning of year	1,333,535	71,015	1,404,550
Net Assets, end of year	$ 1,145,240	$ 36,955	$ 1,182,195

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENT OF ACTIVITIES
Year Ended June 30, 2022

	Net Assets Without Donor Restrictions	Net Assets With Donor Restrictions	Total
Revenue, Gains, and Other Support			
ReStore sales income	$ 1,063,710	$ -	$ 1,063,710
Sale of completed homes	710,837	-	710,837
Grants	81,161	98,786	179,947
Mortgage discount amortization	34,607	-	34,607
Contributions	133,973	-	133,973
Special events	13,674	-	13,674
Interest income	44	-	44
Other income	9,065	-	9,065
Neighborhood Stabilization Program grants	-	148,086	148,086
Contributed nonfinancial assets	7,128	-	7,128
Satisfaction of donor restrictions	183,357	(183,357)	-
Total revenue, gains and other support	2,237,556	63,515	2,301,071
Expenses			
Program services	2,109,310	-	2,109,310
Management and general	247,394	-	247,394
Fundraising	133,674	-	133,674
Total expenses	2,490,378	-	2,490,378
Change in net assets	(252,822)	63,515	(189,307)
Net Assets, beginning of year	1,586,357	7,500	1,593,857
Net Assets, end of year	$ 1,333,535	$ 71,015	$ 1,404,550

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2023

		Supporting Services		
	Program Services	Management and General	Fund-Raising	Total Expenses June 30, 2023
Salaries and Wages	$ 686,540	$ 85,817	$ 85,817	$ 858,174
Construction	394,530	-	-	394,530
Facility	269,235	33,629	33,629	336,493
Payroll Taxes and Benefits	101,209	12,651	12,651	126,511
Organization and Professional Fees	2,046	27,430	1,616	31,092
Depreciation and Amortization	27,307	-	-	27,307
Vehicle Expense	25,128	-	-	25,128
General Liability Insurance	-	28,734	-	28,734
Donations and Tithes	-	19,500	-	19,500
Bank and Merchant Fees	-	18,788	-	18,788
Dues, subscription, and publications	10,002	3,847	1,539	15,388
Supplies and Equipment	-	10,853	-	10,853
Advertising and Marketing	-	-	6,030	6,030
Food, travel, seminars, and training	5,779	-	-	5,779
Taxes and Licenses	-	4,278	-	4,278
Homebuyer Service and Administrative Costs	2,328	-	-	2,328
Fundraising Expenses	-	-	2,094	2,094
Interest Expense	-	1,932	-	1,932
Human Resource Expenses	-	798	-	798
Miscellaneous Expenses	3,991	1,457	-	5,448
Merchandise for Resale	327	-	-	327
Postage	-	333	-	333
	$ 1,528,422	$ 250,047	$ 143,376	$ 1,921,845

GREATER FREDERICKSBURG HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES
Year Ended June 30, 2022

		Supporting Services		
	Program Services	Management and General	Fund-Raising	Total Expenses June 30, 2022
Salaries and Wages	$ 670,879	$ 83,860	$ 83,860	$ 838,599
Construction	978,089	-	-	978,089
Facility	242,530	30,317	30,316	303,163
Payroll Taxes and Benefits	102,777	12,847	12,847	128,471
Organization and Professional Fees	6,050	21,945	-	27,995
Depreciation and Amortization	28,726	-	-	28,726
Vehicle Expense	40,897	-	-	40,897
General Liability Insurance	-	25,958	-	25,958
Donations and Tithes	-	21,100	-	21,100
Bank and Merchant Fees	-	17,570	-	17,570
Dues, subscription, and publications	9,138	3,625	1,489	14,252
Supplies and Equipment	-	15,784	-	15,784
Advertising and Marketing	-	-	3,264	3,264
Food, travel, seminars, and training	3,276	-	-	3,276
Taxes and Licenses	-	4,821	-	4,821
Homebuyer Service and Administrative Costs	1,067	-	-	1,067
Fundraising Expenses	-	-	1,898	1,898
Interest Expense	-	2,897	-	2,897
Human Resource Expenses	-	446	-	446
Miscellaneous Expenses	1,366	5,995	-	7,361
Merchandise for Resale	24,515	-	-	24,515
Postage	-	229	-	229
	$ 2,109,310	$ 247,394	$ 133,674	$ 2,490,378

STATEMENTS OF CASH FLOWS
Years Ended June 30, 2023 and 2022

	2023	2022
Cash Flows from Operating Activities		
Change in net assets	**$ (222,355)**	$ (189,307)
Adjustments to reconcile change in net assets to net cash provided by (used in) operating activities:		
Depreciation	**27,307**	28,726
Mortgage loan discount amortization	**(107,819)**	(34,607)
NSP loan forgiveness	**-**	(49,656)
Changes in assets and liabilities:		
Decrease (increase) in:		
Accounts receivable	**3,336**	(854)
Grants receivable	**(25,000)**	-
Inventory	**1,529**	4,545
Other assets	**(10,000)**	
Reduction in the carrying amount of right-of-use assets	**166,689**	-
Land and land engineering costs	**303,930**	113,850
Construction in progress	**(25,257)**	587,572
Increase (decrease) in:		
Down payments	**(500)**	500
Accounts payable	**670**	(160,199)
Accrued expenses	**(14,847)**	2,093
Lease liability interest	**58,995**	-
Reduction of operating lease	**(203,503)**	-
Deferred straight-line rent	**-**	10,436
Net cash provided by (used in) operating activities	**(46,825)**	313,099
Cash Flows from Investing Activities		
Payments received on mortgage loans receivable	**179,137**	69,250
Net cash provided by investing activities	**179,137**	69,250
Cash Flows from Financing Activities		
Proceeds from long-term borrowings	**-**	155,500
Principal payments on long-term borrowings	**(86,167)**	(23,249)
Net cash provided by (used in) financing activities	**(86,167)**	132,251
Net change in cash and cash equivalents	**46,145**	514,600
Cash and Cash Equivalents:		
Beginning	**924,175**	409,575
Ending	**$ 970,320**	$ 924,175
Supplementary Disclosure of Cash Flow Information		
Right of use assets exchanged for lease liabilities	**$ 2,269,698**	$ -
Cash paid for interest	**1,932**	2,897

See Notes to Financial Statements.

Note 1. Nature of Organization and Significant Accounting Policies

Greater Fredericksburg Habitat for Humanity, Inc. (a nonprofit corporation) (the Organization) was incorporated on October 12, 1994. The Organization is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat for Humanity International assists with information resources, training, publications, and prayer support and in other ways, the Organization is primarily and directly responsible for its own operations. Greater Fredericksburg Habitat for Humanity, Inc. operates primarily in the city of Fredericksburg, Virginia and the surrounding counties of Spotsylvania, Stafford, and King George.

The Organization operates a Habitat ReStore retail location that sells surplus new and used building and home improvement materials to the general public. ReStore provides additional funding for the Organization as well as inexpensive building materials to the public.

A summary of the Organization's significant accounting policies follows:

Basis of accounting: The Organization prepares its financial statements on the accrual basis of accounting, according to the policies of Habitat International and accounting principles generally accepted in the United States of America (U.S. GAAP). Under the accrual basis of accounting, revenues are recognized when earned, and expenses are recognized when the obligation is incurred.

Cash and cash equivalents: All highly liquid investments with a maturity date of three months or less are considered to be cash equivalents. The Organization maintains its cash in checking and savings accounts with financial institutions. Such deposits are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per institution. The Organization has not experienced losses in any accounts and does not believe it is exposed to significant credit risk with these deposits.

Grants and accounts receivable: Grants and accounts receivable are considered to be fully collectible and accordingly no allowance for doubtful accounts is required. If amounts become uncollectible, they are charged to operations when that determination is made. There was no bad debt expense for the years ended June 30, 2023 and 2022.

Mortgages receivable: Mortgages receivable consist of non-interest bearing mortgages secured by real estate and payable in monthly installments. The maturities of the mortgages range from 15 to 30 years. These mortgages have been discounted at prevailing rates for similar mortgages. The mortgage discount rates range from 7.5% to 8%; for the years ended June 30, 2023 and 2022, respectively, as determined by Habitat International.

Inventory: ReStore inventory items are primarily donated by the public; the Organization's policy is not to recognize the value of these donated inventory items, as there is a major uncertainty about the reliability of their values. The value of these items is not reasonably determined until they are sold.

Property and equipment: Property and equipment are recorded at cost. Depreciation is computed using the straight-line method over the following estimated useful lives:

Leasehold improvements	20 years
Vehicles	5 years
Furniture and fixtures	3 – 7 years

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Leases: Effective July 1, 2022, the Organization changed its method of accounting for leases due to the adoption of Accounting Standards Update (ASU) 2016-02, *Leases* (Topic 842), as amended. The Organization adopted the standard using a modified retrospective transition approach, which eliminates the requirement to restate the prior-period financial statements. Under this transition provision, the Organization has applied Topic 842 to reporting periods beginning on July 1, 2022. The adoption of this guidance resulted in the inclusion of right-of-use (ROU) assets and lease liabilities on the statements of financial position.

As part of this adoption, the Organization has elected the practical expedient relief package allowed by the new standard, which does not require the reassessment of (1) whether any existing contracts at transition are or contain leases, (2) the historical lease classification or (3) the initial direct costs for any existing leases.

Additionally, the Organization made accounting policy elections such as exclusion of short-term leases (leases with a term of 12 months or less and which do not include a purchase option that the Organization is reasonably certain to exercise) from the statement of financial position presentation, use of portfolio approach in determination of discount rate and accounting for nonlease components in a contract as part of a single lease component for all asset classes, except specific mining operation equipment. The Organization does not separate lease components for real estate leases.

At contract inception, the Organization determines if a contract is or contains a lease and whether it is an operating lease or a finance lease. A contract is or contains a lease when (i) explicitly or implicitly identified assets have been deployed in the contract; and (ii) the Organization obtains substantially all of the economic benefits from the use of that underlying asset and directs how and for what purpose the asset is used during the term of the contract. The Organization also considers whether its service arrangements include the right to control the use of an asset.

For leases that have a lease term greater than one year, the Organization initially recognizes lease liabilities and ROU assets at the lease commencement date, which is the date that the lessor makes an underlying asset available for use by the Organization. ROU assets represent the Organization's right to use an underlying asset for the lease term and lease liabilities represent the present value of the Organization's obligation to make lease payments, primarily escalating fixed payments, over the lease term. The discount rate used to determine the present value of the lease payments is generally the rate implicit in the lease agreement. If the discount rate implicit in the lease agreement is not readily determinable, the Organization uses its incremental borrowing rate.

The incremental borrowing rate for the lease term is determined by adjusting the Organization's unsecured borrowing rate for a similar term to approximate a collateralized borrowing rate. The Organization's lease terms for each of its leases represents the noncancelable period for which the Organization has the right to use an underlying asset, together with all of the following: (i) periods covered by an option to extend the lease, if the Organization is reasonably certain to exercise that option; (ii) periods covered by an option to terminate the lease if the Organization is reasonably certain not to exercise that option; and (iii) periods covered by an option to extend (or not to terminate) the lease in which exercise of the option is controlled by the lessor. The Organization recognizes lease expense on a straight-line basis over the lease term.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Future lease payments may include fixed rent escalation clauses or payments that depend on an index (such as the consumer price index), which is initially measured using the index or rate at lease commencement. Subsequent changes of any index or other periodic market-rate adjustments to base rent are recorded in variable lease expenses in the period incurred. Residual value guarantees or payments for terminating the lease are included in the lease payments only when it is probably they will be incurred.

Adoption of Topic 842 resulted in the recording of ROU assets and lease liabilities of $2,269,698 at July 1, 2022. The adoption of the new lease standard did not impact the change in net assets or cash flows and did not result in a cumulative-effect adjustment to net assets as of July 1, 2022.

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

> *Net assets without donor restrictions* – Net assets available for use in general operations and not subject to donor (or certain grantor) restrictions.
>
> *Net assets with donor restrictions* – Net assets subject to donor (or certain grantor) imposed restrictions. Some donor-imposed restrictions are temporary in nature, such as those that will be met by the passage of time or other events specified by the donor. Other donor imposed restrictions are perpetual in nature, where the donor stipulates that resources be maintained in perpetuity. Donor imposed restrictions are released when a restriction expires, that is, when the stipulated time has elapsed, when the stipulated purpose for which the resource was restricted has been fulfilled, or both.

Revenue recognition: The Organization records revenue from contracts with customers in accordance with Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2014-09, *Revenue from Contracts with Customers* (Topic 606), and all related amendments using the modified retrospective method. There was no material impact to the results of operations or financial position upon adoption and no adjustments were required to equity. The new standard provides a five-step model for recognizing revenue from contracts with customers as follows:

- Identify the contract with a customer;
- Identify the performance obligations in the contract;
- Determine the transaction price;
- Allocate the transaction price to the performance obligations in the contract; and
- Recognize revenue when or as performance obligations are satisfied.

The Organization is involved in the acquisition, development, rehabilitation, construction, and sale of single-family residential homes as well as owning and operating a retail store consisting of mostly donated items. Revenue from these activities is recognized at a point in time upon transfer of property or merchandise.

The Organization utilizes the portfolio approach and groups contracts with similar characteristics into either home sale or ReStore sale contracts.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Home sale revenue: New home construction sales to homeowners are financed by the Organization and are recorded when the title is transferred to the customer, which is when the performance obligation is satisfied. Neighborhood Stabilization Program (NSP) home sales are financed by a variety of sources including the Organization, the Virginia Department of Housing and Community Development (DHCD), and other grant sources as directed by the NSP program. Upon a sale of NSP program homes, the Organization is required to return a percentage of program receipts to the NSP program. The Organization estimates this liability/refund and reports such as an outstanding obligation. The opening balance of NSP liability as of July 1, 2021 was $113,850. The value of the first mortgage on the home is reported as revenue at the date of transfer to the homeowner with the corresponding sales price discount and mortgage loan discount reported as operating expenses. The opening balance of mortgage loans receivable as of July 1, 2021 was $375,579.

ReStore sale revenue: ReStore sales revenue is recognized upon delivery of the good to the customer at the time of the sale, which is when the performance obligation is satisfied. The Organization generally does not accept returns or exchanges for items sold in the ReStore. Payments for merchandise sales are due at the point of sale.

The Organization offers one year limited warranties on homes sold. These warranties allow the homeowner to request the Organization make eligible repairs to the home. These are assurance type warranties and are not considered performance obligations under Topic 606. Accrued warranty expense of $2,105 and $6,000 for the years ended June 30, 2023 and 2022 is recorded in accrued liabilities on the statement of financial position. The Organization does not offer warranties on ReStore store sales.

For the years ended June 30, 2023 and 2022, home sale revenue made up 12% and 31% of total revenue, gains, and other support, respectively. For the years ended June 30, 2023 and 2022, ReStore sales income made up 62% and 46% of total revenue, gains, and other support, respectively.

Support: The Organization follows FASB ASU 2018-08 – *Not-for-Profit Entities* (Topic 958): *Clarifying the Scope and Accounting Guidance for Contributions Received and Contributions Made.* This ASU requires that an entity determine whether a revenue source is an exchange transaction covered under ASU 2014-09 or a contribution covered under ASU 2018-08. If it is determined to be a contribution, the next step is to determine if it is a conditional or unconditional contribution which affects the timing of the revenue recognized. Unconditional contributions are recognized immediately and classified as either net assets with donor restrictions or net assets without donor restrictions. Conditional contributions received are accounted for as a liability or are unrecognized initially, until the barriers to entitlement are overcome, at which point the transaction is recognized as unconditional and classified as either net assets with restrictions or net assets without restrictions.

Contributions of donated noncash assets and in-kind contributions are recorded at their estimated fair value on the date of the contribution. The in-kind contributions received by the Organization are primarily construction materials.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, of volunteers who have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in these financial statements because the criteria for recognition has not been satisfied.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Receivables are stated at the amount management expects to collect as of year-end. Management estimates that no material losses will be sustained relating to the collectability of mortgages. As such, no allowance for loan losses or adjustments to the balance of mortgages receivable has been recorded, based on current facts and circumstances.

Functional allocation of expenses: The costs of providing the Organization's programs and support services have been summarized on a functional basis in the statement of activities and functional expenses. Directly identifiable expenses are allocated to program services, management and general, or fundraising. Expenses related to more than one function are charged to program services, management and general, and fundraising classifications based on estimates made by management. Allocations are based on departmental staffing levels and other methodologies. Management and general expenses include those expenses that are not directly identifiable with any other specific function but provide for the overall support and direction of the Organization.

Program services include construction and discounts on mortgage originations as well as providing affordable home furnishings and home improvement materials in the ReStore. The cost of home building is capitalized as construction in progress and charged to program services when the house is sold. Program services include the cost of all homes completed and sold during the fiscal year and expenses related to the operation of the ReStore.

During the year ended June 30, 2023, the Organization was in the process of rehabilitating two homes and preparing land for development. One home was sold during the fiscal year. The expenses incurred related to the remaining homes and development in construction remain on the balance sheet as construction in process since they have not yet been sold.

Income taxes: The Organization is generally exempt from federal income taxes under the provisions of Section 501(c)(3) of the Internal Revenue Code (IRC). Unrelated business income that is not related to exempt purposes, less applicable deductions, is subject to federal and state corporate income taxes.

FASB Accounting Standards Codification (ASC) 740, *Income Taxes*, prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. The Organization's management has evaluated the impact of this guidance to its financial statements. The Organization's income tax returns are subject to examination by taxing authorities, generally for a period of three years from the date the returns are filed.

Estimates and assumptions: 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 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.

Note 1. Nature of Organization and Significant Accounting Policies (Continued)

Upcoming accounting pronouncements: In June 2016, the FASB issued ASU 2016-13, *Financial Instruments—Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments*, which creates a new credit impairment standard for financial assets measured at amortized cost and available-for-sale debt securities. The ASU requires financial assets measured at amortized cost (including loans, trade receivables and held-to-maturity debt securities) to be presented at the net amount expected to be collected, through an allowance for credit losses that are expected to occur over the remaining life of the asset, rather than incurred losses. The ASU requires that credit losses on available-for-sale debt securities be presented as an allowance rather than as a direct writedown. The measurement of credit losses for newly recognized financial assets (other than certain purchased assets) and subsequent changes in the allowance for credit losses are recorded in the statement of income as the amounts expected to be collected change. The ASU is effective for fiscal years beginning after December 15, 2022. The Organization is currently evaluating the impact of adopting this new guidance on its financial statements.

Subsequent events: Subsequent events have been evaluated through December 8, 2023, which was the date the financial statements were available to be issued.

Note 2. Liquidity

The following reflects the Organization's financial assets at June 30, 2023 and 2022, reduced by amounts that are not available for general use because of donor-imposed restrictions within one year of the statement of financial position date.

	2023	2022
Financial assets:		
Cash	**$ 970,320**	$ 924,175
Accounts receivable	**-**	3,336
Grants receivable	**25,000**	-
Mortgage loans receivable - current portion	**34,649**	40,562
Total financial assets	**1,029,969**	968,073
Less those unavailable for general expenditures within one year:		
Subject to satisfaction of donor imposed restrictions	**(36,955)**	(71,015)
Financial assets available to meet cash needs for general expenditures within one year	**$ 993,014**	$ 897,058

Current assets available for expenditure within one year consist mainly of cash. The Organization relies on grants and contributions throughout the year to fund its operations. In addition to relying on grants and contributions, the Organization also uses debt financing to fund its program expenses and may draw on its line of credit.

Note 3. Transactions with Related Parties

The Organization annually remits a portion of its contributions to Habitat International. These funds are used to construct homes in economically depressed areas around the world. For the years ended June 30, 2023 and 2022, the Organization contributed $19,500 and $21,000, respectively, in tithes to Habitat International. Amounts payable to Habitat International for tithes at June 30, 2023 and 2022 were $1,500 and $0, respectively. In addition to yearly tithes, Habitat International incurs and pays expenses on the Organization's behalf throughout the normal course of business. The Organization remitted payments of $527 and $7,190 for the years ended June 30, 2023 and 2022, respectively.

The Organization received $15,861 and $71,819 in grant funding and donations from Habitat International during the years ended June 30, 2023 and 2022. In addition the Organization recognized $0 and $18,571 from Habitat International related to grants whose conditions had been met during the years ended June 30, 2023 and 2022, respectively. Remaining amounts available under conditional grants are described in Note 8. Habitat International also receives donations on behalf of the Organization and remits these donations regularly throughout the year.

The Organization and Habitat for Humanity Virginia (Habitat Virginia) reimburse one another for small expenditures they incur and pay on the other entity's behalf throughout the normal course of operations. The Organization remitted payments to Habitat Virginia of $16,669 and $2,110 for the years ended June 30, 2023 and 2022, respectively. There were no payments received from Habitat Virginia for the years ended June 30, 2023 and 2022. Accounts payable to Habitat Virginia at June 30, 2023 and 2022 were $0 and $63 respectively.

Note 4. Mortgage Loans Receivable

When the Organization transfers ownership of a home to a family, multiple mortgages are created. The terms of the first mortgage vary depending on the type and amount of the mortgage and the family's ability to pay. First mortgages are interest free or have low interest rates and have terms ranging from 15 to 33 years. Monthly payments range from $141 to $493. The Organization does not record an allowance for bad debts for these mortgages because each mortgage is fully secured by collateral.

First mortgages are valued in the financial statements net of a discount. The discount is computed using the rate established by Habitat International at the time of the mortgage origination. Habitat International sets the rates by averaging the monthly discount rates published by the IRS for buildings placed into service for that year. The discount is amortized over the life of the mortgage.

Non-interest bearing mortgage loans receivable consisted of the following at June 30:

	2023	2022
Mortgage loans receivable	**$ 636,441**	$ 815,578
Discount	**(366,824)**	(474,642)
	269,617	340,936
Mortgage loans receivable - current portion	**34,649**	40,562
Mortgage loans receivable, net of current portion less discount	**$ 234,968**	$ 300,374

Note 4. Mortgage Loans Receivable (Continued)

The above referenced mortgage loans receivable have scheduled maturities as follows

Year(s) Ending June 30,	Amount
2023	$ 34,649
2024	34,649
2025	34,242
2026	31,838
2027	28,964
Thereafter	472,099
	$ 636,441

In connection with each mortgage, there is an agreement with the Organization and DHCD to perfect a second deed of trust. In the event of default on the first mortgage or sale of real estate, the other mortgage becomes due on demand. If the mortgage is with the Organization, the second deed of trust is forgiven by the Organization using the straight-line method over the life of the loan. If the home sale is through DHCD, the second deed of trust is forgiven at the completion of 15 years of ownership. If the home is sold prior to 15 years of ownership, the entire forgiven amount is due at the time of the sale. These mortgages are not recorded in the financial statements because collection is uncertain and no estimate is available for future payments. If the homeowner transfers, sells, or assigns their title or interest in the property, the second mortgage becomes due on demand and the Organization records a gain equal to the balance determined to be reasonably assured of collection. Realized gains on second mortgages were $83,193 and $0 for the years ended June 30, 2023 and 2022, respectively.

Note 5. Notes payable

Notes payable consist of the following at June 30:

	2023	2022
Note payable to the Neighborhood Stabilization Program for a house to be rehabilitated, bearing no interest, due at the time the home is sold to an individual or family, secured by one property located at Winston Place, Stafford, Virginia.	**$ 155,500**	$ 155,500
Note payable to the Neighborhood Stabilization Program for a house to be rehabilitated, bearing no interest, due at the time the home is sold to an individual or family, secured by one property located at Plantation Forest Drive, Spotsylvania, Virginia.	**-**	64,194
Four notes payable to Virginia Housing Development Authority, bearing interest at 3%, due in monthly installments ranging from $173 to $408, with maturities ranging from November 2020 to January 2027, collateralized by mortgage receivables that have been pledged by the Organization.	**29,555**	40,309
Note payable to BB&T, bearing interest at 5.94%, due in monthly installments of $967, beginning September 2018, maturing September 2023, collateralized by a vehicle.	**363**	11,582
	185,418	271,585
Portion due within one year	**164,886**	242,030
Notes payable, net of current portion	**$ 20,532**	$ 29,555

Aggregate maturities on the notes payable for the next five years are as follows:

Year Ending June 30,	Amount
2024	$ 164,886
2025	8,928
2026	9,156
2027	2,448
	$ 185,418

Note 6. Net Assets with Donor Restrictions

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

		2023		2022
Purpose Restricted				
Homeownership study period cost program	$	25,000	$	-
Homebuyer services		11,605		8,933
Women's build		350		-
NSP grants for home purchases		-		62,082
	$	36,955	$	71,015

Net assets were received and released from donor restrictions, through satisfaction of the following purpose restrictions, during the years ended June 30, 2023 and 2022 as follows:

		2023		2022
Net assets received and released with donor restrictions				
NSP grants for home purchases	$	62,082	$	86,004
Construction or rehabilitation of home		14,000		96,286
Homebuyer services		2,328		1,067
	$	78,410	$	183,357

Note 7. Contributed Nonfinancial Assets

The Organization's contributed nonfinancial assets are as follows for the years ended June 30:

		2023		2022
Construction supplies	$	-	$	7,128

Contributed construction supplies are included in construction expense and supplies expense, respectively, on the statements of functional expenses.

Note 8. Conditional Promises to Give

The Organization received the following conditional promises to give that are not recognized as assets in the statements of financial position as of June 30:

	2023	2022
Grant agreements for construction or rehabilitation of homes from the Virginia Department of Housing and Community Development (DHCD) conditioned upon expenditure of the funds and submission for reimbursement.	**$ -**	$ 49,992
	$ -	$ 49,992

Note 9. Leases

The Organization leases its office and retail store facilities in Fredericksburg, Virginia from Cosner Corner South, LLC and the ReStore from Poor House, LLC. The lease terms are for five (5) years and the Organization has four (4) options to extend the term for an additional five (5) years each.

The Organization rents additional warehouse space. The Organization is also responsible for real estate taxes, insurance and common area maintenance which will be billed separately by the landlord.

Lease expense for the operating leases was as follows:

Lease Expense	
Operating lease expense	**$ 224,359**
Total lease expense	**$ 224,359**

The following is other supplemental information relating to the Organizations operating leases:

Other Supplemental Information	
Cash paid for amounts included in the measurement of lease liabilities	
Operating cash flows from operating leases	**$ 203,503**
ROU assets obtained in exchange for new operating lease liabilities	**2,269,298**
Weighted-average remaining lease term in years for operating leases	**12.01**
Weighted-average discount rate for operating leases	**2.7%**

Note 9. Leases (Continued)

Future maturities of the Organizations operating leases are as follows:

Years Ending December 31,	Amount
2024	$ 203,200
2025	209,472
2026	186,634
2027	190,366
2028	194,174
Therafter	1,516,276
Total undiscounted cash flows	2,500,122
Less: Present value discount	(375,332)
Total lease liabilities	$ 2,124,790

In accordance with US GAAP in effect prior to the adoption for ASU 2016-02, *Lease (Topic 842)*, total operating lease expense was $208,410 for the year ended June 30, 2022.

Note 10. Line of Credit

The Organization has a $150,000 line of credit that renews annually. The expiration date of the current line of credit is August 5, 2024. Bank advances on the line of credit carry an interest rate equal to the lender's prime rate plus .75%. The interest rate at June 30, 2023 was 9%. There was no outstanding balance at June 30, 2023 and 2022.