



Asheville Area
Habitat
for Humanity®

Asheville Area Habitat for Humanity
Asheville, NC

financial statements

year ended June 30, 2022





ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

**FINANCIAL STATEMENTS AND
INDEPENDENT AUDITOR'S REPORT**

Years Ended June 30, 2022 and 2021

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

June 30, 2022 and 2021

Table of Contents

INDEPENDENT AUDITORS' REPORT

FINANCIAL STATEMENTS

Statements of Financial Position	Exhibit A
Statements of Activities	Exhibit B
Statements of Changes in Net Assets	Exhibit C
Statements of Functional Expenses	Exhibit D
Statements of Cash Flows	Exhibit E
Notes to Financial Statements	1 – 18



INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Asheville Area Habitat for Humanity, Inc.
Asheville, North Carolina

Opinion

We have audited the accompanying financial statements of Asheville Area Habitat for Humanity, Inc. (a nonprofit organization), which comprise the statement of financial position as of June 30, 2022, and the related statements of activities, changes in net assets, 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 Asheville Area Habitat for Humanity, Inc. 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.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Our responsibility 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 Asheville Area Habitat for Humanity, 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.

Prior Period Financial Statements

The financial statements as of June 30 2021, were audited by Johnson Price Sprinkle, PA, who merged with DMJ & Co., PLLC to become DMJPS PLLC as of June 1, 2022, and whose report dated September 13, 2021, expressed an unmodified opinion on those statements.

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; this includes 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 Asheville Area Habitat for Humanity, Inc.'s ability to continue as a going concern within one year after the date that the financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements

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

DMQPS PLLC

Certified Public Accountants
Asheville, North Carolina

October 7, 2022

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

FINANCIAL STATEMENTS

Years Ended June 30 2022 and 2021

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

June 30, 2022 and 2021

	ASSETS	
	2022	2021
Assets		
Cash and cash equivalents	\$ 7,988,576	\$ 3,476,601
Restricted cash	1,542,172	454,649
Prepaid expenses	38,743	49,196
Grants receivable	35,000	22,500
Promises to give, net	32,776	90,582
Inventory	3,943,973	3,113,836
Construction in progress	1,187,390	604,501
Mortgages receivable, net	9,671,776	9,350,881
Property and equipment, net	8,411,103	8,234,938
Investments	701,065	827,575
Other assets	128,607	159,215
	<u>\$ 33,681,181</u>	<u>\$ 26,384,474</u>
Total Assets	<u>\$ 33,681,181</u>	<u>\$ 26,384,474</u>
	LIABILITIES AND NET ASSETS	
Liabilities		
Accounts payable and accrued expenses	\$ 546,424	\$ 148,976
Payroll liabilities	159,522	228,911
Funds held for others:		
Homeowners' escrow payable	250,365	259,563
Refundable deposits	12,676	15,836
Notes payable	9,479,514	10,608,229
	<u>10,448,501</u>	<u>11,261,515</u>
Total Liabilities	<u>10,448,501</u>	<u>11,261,515</u>
Net Assets		
Without donor restrictions	19,260,803	12,041,625
With donor restrictions	3,971,877	3,081,334
	<u>23,232,680</u>	<u>15,122,959</u>
Total Net Assets	<u>23,232,680</u>	<u>15,122,959</u>
	<u>\$ 33,681,181</u>	<u>\$ 26,384,474</u>
Total Liabilities and Net Assets	<u>\$ 33,681,181</u>	<u>\$ 26,384,474</u>

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

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

STATEMENTS OF ACTIVITIES

Years Ended June 30, 2022 and 2021

	2022	2021
Changes in Net Assets without Donor Restrictions:		
Public Support, Revenues and Gains:		
Contributions of cash and other financial assets	\$ 6,967,631	\$ 1,997,507
Contributions of nonfinancial assets	3,730,573	3,099,551
Sale of homes	2,212,836	2,020,625
Home repair sales	42,000	53,561
Government grants - Paycheck Protection Program	562,375	562,375
Government grants - other	1,044,362	214,483
Gain on sale of asset	1,494	33,877
ReStore sales	3,683,856	3,176,156
Less cost of goods sold	(3,551,152)	(3,026,413)
Rents, net of related expenses	205	14,540
Amortization of mortgage discounts	691,995	752,642
Interest income	6,594	12,862
Forgiven mortgage income	461,113	315,264
Other income	95,108	79,982
	<u>15,948,990</u>	<u>9,307,012</u>
Net Assets Released from Restrictions:		
Satisfaction of program restrictions	685,646	104,641
Total net assets released from restrictions	<u>685,646</u>	<u>104,641</u>
Total public support, revenues, and gains without donor restrictions, and satisfaction of program restrictions	<u>16,634,636</u>	<u>9,411,653</u>
Expenditures:		
Program services	8,968,128	7,591,908
Supporting services:		
Management and general	425,711	306,198
Fundraising	523,293	514,139
	<u>9,917,132</u>	<u>8,412,245</u>
Total Expenditures		
Increase in net assets with donor restrictions, before inherent contribution received	6,717,504	999,408
Inherent contribution of net asset without donor restrictions from Madison County Habitat for Humanity, Inc.	<u>501,674</u>	<u>-</u>
Increase in net assets without donor restrictions	<u>7,219,178</u>	<u>999,408</u>
Changes in Net Assets with Donor Restrictions:		
Contributions	1,675,899	153,760
Satisfaction of program restrictions	(685,646)	(104,641)
Rents, net of related expenses	65	39,522
Investment income (loss), net of related expenses	(99,775)	157,378
	<u>890,543</u>	<u>246,019</u>
Increase in net assets with donor restrictions		
Increase in Net Assets	<u>\$ 8,109,721</u>	<u>\$ 1,245,427</u>

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

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

STATEMENTS OF CHANGES IN NET ASSETS

Years Ended June 30, 2022 and 2021

	<u>Without Donor Restrictions</u>	<u>With Donor Restrictions</u>	<u>Total</u>
Net Assets, June 30, 2020	\$ 11,042,217	\$ 2,835,315	\$ 13,877,532
Increase in Net Assets	<u>999,408</u>	<u>246,019</u>	<u>1,245,427</u>
Net Assets, June 30, 2021	<u>\$ 12,041,625</u>	<u>\$ 3,081,334</u>	<u>\$ 15,122,959</u>
Increase in Net Assets	<u>7,219,178</u>	<u>890,543</u>	<u>8,109,721</u>
Net Assets, June 30, 2022	<u><u>\$ 19,260,803</u></u>	<u><u>\$ 3,971,877</u></u>	<u><u>\$ 23,232,680</u></u>

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

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2022

	Program Services							Supporting Services			Total Program and Supporting Services
	New Home Construction	Home Repair	Mortgage Lending	Land Acquisition	Restore	Other Program	Total Program Services	Management and General	Fundraising	Total Supporting Services	
Expenses											
Salaries and wages	\$ 172,200	\$ 192,309	\$ 220,652	\$ 34,750	\$ 1,291,239	\$ 88,336	\$ 1,999,486	\$ 220,447	\$ 348,240	\$ 568,687	\$ 2,568,173
Payroll taxes	13,014	14,191	16,812	2,650	97,398	6,673	150,738	16,782	26,051	42,833	193,571
Employee benefits	29,632	32,842	30,105	4,540	290,936	15,576	403,631	37,598	42,548	80,146	483,777
Construction and repair of homes	2,506,982	413,503	1,986	57	2,127	71	2,924,726	127	105	232	2,924,958
Discounts on mortgages	-	-	-	-	-	1,343,664	1,343,664	-	-	-	1,343,664
Advertising and promotion	1,341	441	4,244	9	65,245	580	71,860	86	1,297	1,383	73,243
Supplies	4,383	9,388	883	47	38,169	2,333	55,203	1,344	1,137	2,481	57,684
Other expenses	2,710	14,717	9,769	565	240,347	2,223	270,331	6,169	7,774	13,943	284,274
IT technical services	4,193	11,671	14,082	674	22,015	12,213	64,848	21,348	16,504	37,852	102,700
Mortgage servicing	-	-	40,854	-	-	-	40,854	-	-	-	40,854
Special events	1,703	719	1,150	431	6,228	2,018	12,249	1,819	8,924	10,743	22,992
Travel and entertainment	9,099	1,787	2,024	2	4,765	583	18,260	1,238	443	1,681	19,941
Grants to other organizations	-	-	-	-	25,562	60,156	85,718	-	-	-	85,718
Maintenance and repairs	3,895	7,344	8,855	439	83,218	43,824	147,575	13,276	10,559	23,835	171,410
Insurance	15,194	16,135	3,800	211	54,238	7,869	97,447	18,957	3,130	22,087	119,534
Interest expense	153	-	(600)	-	79,123	159,012	237,688	-	-	-	237,688
Dues and subscriptions	1,722	1,834	897	69	5,131	4,649	14,302	1,042	2,005	3,047	17,349
Taxes and licenses	440	18	81	1	238,108	11,242	249,890	235	25	260	250,150
Postage and printing	922	828	1,452	36	13,291	847	17,376	1,089	23,135	24,224	41,600
Professional fees	10,395	3,899	52,639	11,920	39,157	8,764	126,774	28,637	8,882	37,519	164,293
Equipment rental	8,712	12,314	3,391	119	205,564	5,347	235,447	3,775	2,919	6,694	242,141
Staff development, training and internships	23,045	28,407	6,402	38	16,159	12,618	86,669	30,427	3,397	33,824	120,493
Utilities	6,352	5,361	4,933	347	68,398	6,544	91,935	7,294	5,162	12,456	104,391
Vehicle expense	1,642	1,182	-	-	24,784	-	27,608	-	-	-	27,608
Depreciation expense	17,159	12,718	9,574	412	145,315	8,671	193,849	14,021	11,056	25,077	218,926
Total Expenses	\$ 2,834,888	\$ 781,608	\$ 433,985	\$ 57,317	\$ 3,056,517	\$ 1,803,813	\$ 8,968,128	\$ 425,711	\$ 523,293	\$ 949,004	\$ 9,917,132

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

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

STATEMENT OF FUNCTIONAL EXPENSES

Year Ended June 30, 2021

	Program Services							Supporting Services			Total Program and Supporting Services	
	New Home Construction	Home Repair	Mortgage Lending	Land Acquisition	Restore	Other Program	Total Program Services	Management and General	Fundraising	Total Supporting Services		
Expenses												
Salaries and wages	\$ 120,363	\$ 171,172	\$ 167,026	\$ 34,378	\$ 1,114,569	\$ 85,061	\$ 1,692,569	\$ 198,171	\$ 353,149	\$ 551,320	\$ 2,243,889	
Payroll taxes	7,794	12,434	12,363	2,599	82,206	6,388	123,784	14,805	26,010	40,815	164,599	
Employee benefits	12,731	47,101	32,042	5,546	253,176	18,153	368,749	24,362	47,242	71,604	440,353	
Construction and repair of homes	2,230,285	191,776	-	282	806	30	2,423,179	-	-	-	2,423,179	
Discounts on mortgages	-	-	-	-	-	1,196,205	1,196,205	-	-	-	1,196,205	
Advertising and promotion	883	302	4,656	4	35,431	283	41,559	40	608	648	42,207	
Supplies	6,522	4,650	893	39	26,103	537	38,744	1,007	942	1,949	40,693	
Other expenses	1,380	10,443	7,347	70	140,503	6,764	166,507	12,426	6,945	19,371	185,878	
IT technical services	3,697	10,422	12,623	601	19,133	10,905	57,381	19,065	14,737	33,802	91,183	
Mortgage servicing	-	-	36,740	-	-	-	36,740	-	-	-	36,740	
Special events	286	434	451	21	4,207	4,295	9,694	744	4,612	5,356	15,050	
Travel and entertainment	5,668	1,231	1,049	1	2,784	241	10,974	8	500	508	11,482	
Grants to other organizations	-	-	-	-	23,662	52,792	76,454	-	-	-	76,454	
Maintenance and repairs	4,375	4,113	4,891	247	41,558	4,817	60,001	7,290	5,884	13,174	73,175	
Insurance	13,628	9,931	2,064	230	63,295	5,259	94,407	(15,402)	3,153	(12,249)	82,158	
Interest expense	34,160	-	722	-	43,188	155,317	233,387	-	-	-	233,387	
Dues and subscriptions	1,677	2,038	23	62	5,114	3,338	12,252	778	1,396	2,174	14,426	
Taxes and licenses	387	517	1,673	1	185,248	540	188,366	35	27	62	188,428	
Postage and printing	1,065	843	48,819	33	9,793	1,019	61,572	1,017	19,468	20,485	82,057	
Professional fees	1,164	3,499	4,090	7,516	42,676	19,106	78,051	10,656	7,392	18,048	96,099	
Equipment rental	5,765	10,978	11,091	97	200,833	5,286	234,050	3,069	2,373	5,442	239,492	
Staff development, training and internships	22,707	26,651	5,449	80	8,402	13,127	76,416	6,378	2,675	9,053	85,469	
Utilities	5,391	5,001	15	161	62,786	4,357	77,711	7,102	5,189	12,291	90,002	
Vehicle expense	4,900	1,867	-	-	26,309	5	33,081	-	10	10	33,091	
Depreciation expense	28,831	12,377	10,417	392	138,369	9,689	200,075	14,647	11,827	26,474	226,549	
Total Expenses	\$ 2,513,659	\$ 527,780	\$ 364,444	\$ 52,360	\$ 2,530,151	\$ 1,603,514	\$ 7,591,908	\$ 306,198	\$ 514,139	\$ 820,337	\$ 8,412,245	

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

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2022 and 2021

	2022	2021
Cash Flows from Operating Activities:		
Increase in net assets	\$ 8,109,721	\$ 1,245,427
Adjustments to reconcile increase in net assets to net cash provided by operating activities:		
Inherent contribution of net assets from Madison County Habitat for Humanity, Inc.	(501,674)	-
Depreciation	218,926	226,549
Non-cash government grant income - Paycheck Protection Program	(562,375)	(562,375)
Non-cash interest expense	3,873	10,966
Net change in operating asset and liabilities:		
Prepaid expenses	10,453	5,513
Grants receivable	(12,500)	(22,500)
Promises to give, net	57,806	(43,151)
Inventory	(747,906)	303,585
Construction in progress	(582,889)	85,183
Mortgages receivable	(142,871)	(394,114)
Other assets	30,608	(37,719)
Accounts payable and accrued expenses	397,448	17,792
Payroll liabilities	(69,389)	(65,675)
Homeowners' escrow payable	(29,337)	(8,686)
Refundable deposits	(3,160)	(4,675)
Net Cash Provided by Operating Activities	6,176,734	756,120
Cash Flows from Investing Activities:		
Cash and restricted cash received from Madison County Habitat for Humanity, Inc.	279,812	-
Acquisition of property and equipment	(395,091)	(36,962)
Net change in investments held in endowments	126,510	(186,440)
Net Cash Provided by (Used in) Investing Activities	11,231	(223,402)
Cash Flows from Financing Activities:		
Proceeds from issuance of notes payable	1,755,000	5,135,000
Proceeds from Paycheck Protection Program loan	-	562,375
Payments for debt issuance costs	-	(27,500)
Payments on notes payable	(2,343,467)	(5,653,785)
Net Cash Provided by (Used in) Financing Activities	(588,467)	16,090
Net Increase in Cash and Cash Equivalents	5,599,498	548,808
Cash and Cash Equivalents, beginning of year	3,931,250	3,382,442
Cash and Cash Equivalents, end of year	\$ 9,530,748	\$ 3,931,250
Cash as Presented on Statements of Financial Position:		
Cash and cash equivalents	\$ 7,988,576	\$ 3,476,601
Restricted cash	1,542,172	454,649
Cash and Cash Equivalents, and Restricted Cash	\$ 9,530,748	\$ 3,931,250
Supplemental disclosures:		
Net assets contributed from Madison County Habitat for Humanity, Inc.	\$ 501,674	\$ -
Interest expense paid	\$ 222,455	\$ 233,387

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

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.**NOTES TO FINANCIAL STATEMENTS****June 30, 2022 and 2021****1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:****Nature of Activities**

Asheville Area Habitat for Humanity, Inc. (“the Organization”) is a nonprofit ministry that fosters community by partnering with qualified families and individuals to build new houses and preserve existing homes. Its vision is to provide a safe and decent home for every family. The Organization has been building houses and changing lives in Buncombe County since 1983. In December, 2021 the organization expanded its outreach into neighboring Madison County through a merger with the Madison County Habitat for Humanity affiliate. The combined organization, with community members from the Madison County Habitat for Humanity Board of Directors and volunteers already in the community, will be able to expand the work of building and repairing homes in a historically underserved area. The joined organization is planning to build one house in 2022 and to introduce the Home Repair service by completing 2 repair projects in Madison County.

The Organization’s primary activity is affordable new home construction. In conjunction with this activity, the Organization originates affordable mortgage loans and finances these for the income-qualified homebuyers who purchase these new homes. Another important part of the Organization’s work is land acquisition and development which provides the building lots for its new home construction program. During the year ended June 30, 2022, the Organization spent \$122,277 on the acquisition of land for future development and \$1,012,022 for land development. During the year ended June 30, 2021, the Organization spent \$210,250 on the acquisition of land for future development and \$10,678 for land development.

Another of the Organization’s activities is its home repair program in which it provides affordable home repairs to income-qualified homeowners. The program changed this fiscal year by eliminating the requirement of a promissory note for the cost of the project and instead implemented an up-front fee program which is based on the homeowners’ income. The additional costs of the project are supported by program revenues and public affordable housing sources.

Another important part of the Organization’s activities is its ReStore (thrift store) operation which provides support for its other activities. The Organization currently operates two ReStores.

The Organization receives its support principally through contributions, grants, and net proceeds from its ReStore operations.

In March, the Organization embarked on a pilot program under the direction of the Board of Directors to finance a mortgage through a 3rd-Party lending program with First Bank. Through this program, First Bank writes and holds the homeowner’s mortgage at a 2% rate while maintaining the homeowner’s maximum allowed loan payment under the Organization’s mortgage program. The Organization received an up-front, discounted payment from First Bank. This program provides a potential new source of operating revenue that can be instrumental in funding the early costs of home building and land development. Due to the success of the first loan of this nature, the Organization plans to expand this program in 2023 with qualified home buyers.

Basis of Accounting

The Organization prepares its financial statements in accordance with accounting principles generally accepted in the United States of America which involves the application of accrual accounting; consequently, revenues and gains are recognized when earned, and expenses and losses are recognized when incurred.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *[cont'd]***Estimates**

The preparation of financial statements requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

In March 2020, the World Health Organization declared the outbreak of a disease caused by a novel strain of the coronavirus (COVID-19) to be a pandemic. This pandemic has created and may continue to create significant uncertainty in the macroeconomic environment which, in addition to other unforeseen effects of this pandemic, and the ongoing war in Ukraine, may adversely impact the Organization's results of operations. As a result, management's estimates and assumptions may require increased judgment and carry higher degree of variability and volatility. As events continue to evolve and additional information becomes available, management's estimates could materially change.

Cash and Cash Equivalents

Cash consists of funds held in demand deposits with banks. The Organization considers all highly liquid investments with maturities of three months or less to be cash equivalents. Cash and investment balances exceeded federally insured amounts by \$7,634,730 and \$2,139,817 as of June 30, 2022 and 2021, respectively.

Restricted Cash

Restricted cash consists of amounts held in escrow to pay property taxes and insurance for homeowners in the amount of \$255,314 and \$262,704 for the years ended June 30, 2022 and 2021, respectively. Restricted cash also includes unspent grant funds with donor restriction in the amount of \$1,094,914 for the year ended June 30, 2022. In addition, for the years ended June 30, 2022 and 2021 there is \$191,944 restricted cash under an irrevocable standby letter of credit which secures a local municipality for completion of storm water facilities at an affordable home subdivision that the Organization is developing.

Prepaid Expenses

Prepaid expenses consist primarily of prepaid insurance premiums.

Promises to Give

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 only when the conditions on which they depend are substantially met and the promises become unconditional.

Investments

Investments purchased by the Organization are initially recorded at their cost, and donated investments are recorded at fair value on the date they are received as a donation. Endowment investments are adjusted to fair values as of the date of the statement of financial position. Unrealized gains and losses are included in the changes in net assets.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES [cont'd]

Fair Value Measurement

Fair value is the price that would be received to sell an asset or the price that would be paid to transfer a liability in an orderly transaction between market participants at the measurement date. Certain valuation techniques are used to measure fair value. There are three broad levels as follows:

Level 1 – (the highest level) inputs are based on quoted prices in active markets for identical assets or liabilities that the Organization has the ability to access at the measurement date. For example, securities traded in an active market, such as the New York Stock Exchange, are valued using Level 1 inputs.

Level 2 – inputs are observable inputs other than quoted prices, either directly or indirectly through corroboration with observable market data. If the asset or liability has a specified term, the Level 2 input must be observable for substantially the full term.

Level 3 – inputs are unobservable inputs for the asset or liability, meaning the inputs reflect the Organization's own assumptions about the assumptions market participants would use in pricing the asset or liability, including inputs related to risk, which have been developed based on the best information available in the circumstances

Property and Equipment

The Organization capitalizes all property and equipment with a cost, if purchased, or fair value, if donated, of \$500 or more. Donations of property and equipment are recorded as support at their estimated fair value. Such donations are reported as unrestricted 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 restricted support. 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 as instructed by the donor 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 over the assets' estimated useful lives, ranging from 5 to 40 years for leasehold improvements and buildings, 5 to 10 years for equipment and furniture, and 2 to 5 years for vehicles.

Net Assets

Net assets are classified based on the existence or absence of donor-imposed restrictions. The following is a description of each class:

Without donor restrictions – Net assets without donor restrictions include all net assets which are not restricted and are available for use in the performance of the activities of the Organization. If the Board of Directors specifies a purpose where none has been stated by the original donor, such funds are classified as designated, without donor restrictions.

With donor restrictions – Net assets with donor restrictions consist of contributions subject to donor imposed stipulations that they be maintained by the Organization. Generally, the donors of these assets would permit the Organization to use all or part of the income earned on the related investments for general or specific purposes.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *[cont'd]***Contributions and Grants**

Contributions and grants are recognized as received in accordance with ASC 958-605. Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restrictions expire in the fiscal year in which the contributions are recognized. All other donor-restricted contributions are reported as increases in net assets with donor restrictions depending on the nature of the restrictions. When a restriction expires, restricted net assets are reclassified to net assets without donor restrictions.

Revenue Recognition

Home Sales – A portion of the Organization’s revenue is derived from home sales during the year. Due to the nature of contracts, there is no variable consideration and only one performance obligation. Such revenue is conditional upon meeting certain performance obligations, and amounts received are recognized as revenue once the requirements have been met. Once construction is complete on a home and closing procedures have been completed, buyers take possession of the home, and the performance obligation is considered to have been met. Each house sold has a defined purchase price based on a third-party appraisal. Contracts are considered to have commercial substance as they all involve a signed promissory note, which is paid in accordance with the note terms.

ReStore Revenues – A portion of the Organization’s revenue is derived from ReStore sales during the year. Such revenue is conditional upon meeting one performance obligation, the sale transaction is completed at a ReStore location, and amounts received are recognized as revenue once the sale has been made. Once the sale is made, customers take possession of the goods purchased. These transactions are considered to be contracts with customers as they have commercial substance through the transaction of cash payment in return for the goods purchased. Due to the nature of these transactions, there is no variable consideration and only one performance obligation.

Home repair sales – A portion of the Organization’s revenue is derived from home repair sales during the year. Such revenue is conditional upon meeting one performance obligation, the sale transaction is completed at a client’s home, and amounts received are recognized as revenue as the repair is completed. For many of the home repair projects completed, the cost associated with the repair is fully covered using grants or other contributions with no cost to the homeowner. The remainder of home repair sales are significantly discounted to achieve affordability for qualifying clients. Through March 21, 2022 these transactions were considered to be contracts with customers as they have commercial substance because they all involve a signed promissory note, which is paid in accordance with the note terms. Beginning March 22, 2022 the program was modified to remove the requirement of a promissory note for the cost of the project. Instead a fee based on the homeowners income is collected prior to starting the project. Since the fee is unrelated to the cost of the project these fees are considered outside the scope of ASC 606 and instead are recognized as contributions in accordance with ASC 958-605.

Contributed Nonfinancial Assets and Services

Contributed services are recognized if the services received (a) create or enhance long-lived assets or (b) require specialized skills, are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation. Contributions of tangible assets are recognized at fair market value when received.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *[cont'd]***Contributed Nonfinancial Assets and Services** *[cont'd]*

Details of the Organization's Contributed nonfinancial assets and services consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>	<u>Usage</u>
Restore inventory	\$ 3,551,152	\$ 3,026,413	ReStore
Other services and materials	<u>179,421</u>	<u>73,138</u>	New home construction & supporting services
Total	<u>\$ 3,730,573</u>	<u>\$ 3,099,551</u>	

Contributions of ReStore inventory, services and materials were valued using estimated average prices of identical or similar products or services using pricing data of similar products or services under a 'like-kind' methodology, considering the utility of the services and goods at the time of the contribution. No in-kind contributions were restricted. The Organization sells donated items received in the ReStore. The Organization does not sell donated material and only uses materials and services for its own program or supporting service activities.

Additionally, the Organization receives a significant amount of contributed time which does not meet the two recognition criteria described above. Accordingly, the value of this contributed time, an estimated 45,297 hours at a value of \$1,356,645 for the year ended June 30, 2022 and 23,953 hours at a value of \$622,286 for the year ended June 30, 2021, is not reflected in the accompanying financial statements. The lower amount of contributed time in the year ended June 30, 2021 is attributable to the COVID-19 pandemic and the related State of North Carolina's restrictions on groups as well as the Organization's efforts to protect its volunteers from potential community spread of the virus.

Sales Tax

The State of North Carolina imposes a sales tax of 7% on all of the Organization's ReStore sales to nonexempt customers. The Organization collects that sales tax from customers and remits the entire amount to the State. The Organization's accounting policy is to include the tax collected and remitted to the State in revenue and cost of sales. The Organization's revenue and cost of sales of the ReStore included \$238,079 and \$185,213 in sales tax collected and remitted for the years ended June 30, 2022 and 2021, respectively.

Advertising

The Organization uses advertising to promote its programs among the audiences it serves. The production costs of advertising are expensed as incurred. Advertising costs totaled \$73,243 and \$42,207 for the years ended June 30, 2022 and 2021, respectively. The amount paid by the Organization is included in advertising and promotion and ReStore income, net of related expenses.

Functional Allocation of Expenses

The cost of program and supporting services have been summarized on a functional basis in the statements of activities. The statements of functional expenses present the natural classification detail of expenses by function. Accordingly, certain costs have been allocated among the programs and supporting services benefited.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

Income taxes

The Organization is tax-exempt under Internal Revenue Code Section 501(c)(3) and, as such, is not subject to income taxes on net income from exempt purposes. It is the Organization's policy to evaluate all tax positions to identify any that may be considered uncertain. All identified material tax positions are assessed and measured by a "more-likely-than-not" threshold to determine if the tax position is uncertain, and what, if any, effect the uncertain tax position may have on the financial statements. No material uncertain tax positions were identified for tax years 2021 and 2020. Currently, the statute of limitations remains open subsequent to and including tax year 2018; however, no examinations are in process or anticipated.

Concentration of Credit Risk

Financial instruments that potentially subject the Organization to credit risk consist of notes receivable that are secured by the residential property constructed with the proceeds. These undiscounted non-interest bearing notes receivable totaled \$19,942,211 and \$19,237,240 as of June 30, 2022 and 2021, respectively.

Reclassifications

Certain amounts for the year ended June 30, 2021 have been reclassified to conform to current year presentation. These reclassifications had no effect on the increase in net assets for the year ended June 30, 2021.

Change in accounting principle

In September 2020, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2020-07, *Not-for-Profit Entities: Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets* (Topic 958). The objective of this ASU is to increase transparency of contributed nonfinancial assets for not-for-profit ("NFP") entities through enhancements to presentation and disclosure. The amendments in this ASU apply to NFPs that receive contributed nonfinancial assets. Contribution revenue may be presented in the financial statements using different terms (for example, gifts, donations, grants, gifts-in-kind, donated services, or other terms). The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, inventory, intangible assets, services, and unconditional promises of those assets. The amendments in this ASU will improve financial reporting by providing new presentation and disclosure requirements about contributed nonfinancial assets for NFPs, including additional disclosure requirements for recognized contributed services. The Organization adopted the new standard effective for July 1, 2020, the first day of the Organization's first fiscal year presented, using the full retrospective method.

The adoption of this ASU required that donations to the ReStore previously reported on the statement of activities in the year ended June 30, 2021, in the amount of \$3,026,413 within "ReStore Sales" be combined with in-kind contributions in the amount of \$73,138 which were previously reported under the heading "Contributions". The combined amount of \$3,099,551 are now recorded under the heading "Contributed nonfinancial assets" on the statement of activities for the year ended June 30, 2021.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *[cont'd]***Buncombe County Award**

During the year ended June 30, 2020, Buncombe County awarded \$680,800 to the Organization who will use those funds to develop land, construct 38 homes, and provide direct buyer assistance to empower 38 low-income Buncombe County residents to become homeowners. These 38 homes are the initial construction in a neighborhood of 98 homes on 20.02 acres in western Buncombe County that the Organization will develop over multiple years. The 38 units under this contract will be completed by Spring 2023. As houses are completed, these funds will be shown in each sale as a subsidiary of \$16,700 for 24 homebuyer households in need of down payment assistance, and \$20,000 for 14 homebuyer households in need of down payment assistance. The down payment assistance funds (\$16,700 or \$20,000), which are secured by a lien on subject property, will provide direct affordability assistance to the homebuyer. During the year ended June 30, 2022, the Organization sold 11 houses and has \$980,360 invested in the remaining 21 homes. During the year ended June 30, 2021, the Organization sold 6 houses and had \$1,104,226 invested in the remaining 32 homes. Although the project is secured by a lien on the property to be released as homes are completed, it has been reflected as a grant recognized for the amount expected to be forgiven prior to legal release since the funds have been spent and there is no right of return. The forgivable principal remaining is \$396,900 and \$580,600 for the years ended June 30, 2022 and 2021, respectively.

2. ACQUISITION OF HABITAT AFFILIATE

In accordance with an agreement and plan of merger, effective October 25, 2021, the Organization filed Articles of Merger of Madison County Habitat for Humanity, Inc. into the Organization. No consideration was transferred by Asheville Area Habitat for Humanity, Inc. related to the transaction. Effective December 1, 2021, all assets and liabilities of Madison County Habitat for Humanity, Inc. were assumed by Asheville Area Habitat for Humanity, Inc. Strategically aligning allows the entity to further invest in land opportunities, leverage increased purchasing power, and reduce administrative costs.

In accordance with GAAP, the Organization accounted for the transaction as an acquisition by a not-for-profit entity, with Madison County Habitat for Humanity, Inc.'s identifiable assets and liabilities measured at estimated fair value as of the transaction date. The statement of activities for the year ended June 30, 2021 includes the operating activity for legacy Madison County Habitat for Humanity, Inc.'s operations for the period from December 1, 2021 through June 30, 2022.

The following table summarizes the amounts of the assets acquired and liabilities assumed recognized at the acquisition date:

Assets acquired:	
Cash	\$ 279,812
Mortgages receivable	178,024
Real estate inventory	<u>82,231</u>
Total assets acquired	<u>540,067</u>
Liabilities assumed:	
Funds held for others	20,139
Long-term debt	<u>18,254</u>
Total liabilities assumed	<u>38,393</u>
Inherent contribution received	<u>\$ 501,674</u>

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

2. ACQUISITION OF HABITAT AFFLIATE *[cont'd]*

On the statements of activities, the inherent contribution received is recorded as an increase in net assets without donor restrictions of \$501,674 for the year ended June 30, 2022.

The fair value of mortgages receivable acquired was \$178,024. The gross amount due under the mortgages receivable at the acquisition date amounted to \$237,110, all of which is considered collectible.

3. LIQUIDITY AND AVAILABILITY

Financial assets available for operations, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, include the following:

	<u>2022</u>	<u>2021</u>
Cash and cash equivalents	\$ 7,988,576	\$ 3,476,601
Endowment spendable income	30,150	26,800
Promises to give receivable within one year, net	32,776	74,158
Mortgages receivable within one year	<u>965,615</u>	<u>938,418</u>
	<u>\$ 9,017,117</u>	<u>\$ 4,515,977</u>

Cash balances are invested in money market funds. The Organization maintains two lines of credit (Note 14) with banks to be used primarily to fund any cash flow timing differences between payments for infrastructure project progress payments as they come due and the related draws upon grants or loans for these projects. One line is for \$250,000 which has been in place since June 2020, has never been utilized, and is unsecured. One line is for \$650,000 and is secured by real property. This line was put in place in June 2021 and has never been utilized.

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The Organization's fair value measurements for investments that are measured at fair value on a recurring basis and the level within the fair value hierarchy include the endowment funds held with the Community Foundation of Western North Carolina which are considered to be valued using Level 3 inputs.

The reconciliation of significant unobservable inputs (level 3) for endowment funds are as follows for the year ended June 30, 2022:

Beginning balance, July 1, 2021	\$ 827,575
Contributions	65
Interest and dividends, net	3,788
Unrealized and realized losses	(97,763)
Less administrative fees	(5,800)
Less distributions	<u>(26,800)</u>
Ending balance, June 30, 2022	<u>\$ 701,065</u>

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

4. FAIR VALUE OF FINANCIAL INSTRUMENTS

The reconciliation of significant unobservable inputs (level 3) for endowment funds are as follows for the year ended June 30, 2021:

Beginning balance, July 1, 2020	\$	641,135
Contributions		45,226
Interest and dividends, net		4,884
Unrealized and realized gains		152,494
Less administrative fees		(5,704)
Less distributions		<u>(10,460)</u>
Ending balance, June 30, 2021	\$	<u>827,575</u>

Valuation techniques: Fair values for endowment funds are based on other observable inputs for the investment in the Community Foundation.

Change in valuation techniques: None.

5. PROMISES TO GIVE, NET

Unconditional promises to give as of June 30 are as follows:

	<u>2022</u>	<u>2021</u>
Receivable in less than one year	\$ 36,418	\$ 82,397
Receivable in one to five years	<u>---</u>	<u>18,250</u>
Total unconditional promises to give	36,418	100,647
Less allowance for uncollectible promises receivable	<u>(3,642)</u>	<u>(10,065)</u>
Unconditional promises to give, net	\$ <u>32,776</u>	\$ <u>90,582</u>

Promises to give receivable in more than one year are discounted at 5% when material.

The allowance for uncollectible amounts is based on an estimated amount that the Organization feels is reasonable.

6. MORTGAGES RECEIVABLE

All mortgage notes are receivable in monthly installments. In keeping with the stated purpose of the Organization, persons who purchase homes built by the Organization are not charged interest on their mortgage obligations. The implied market rate interest is considered to be a grant to the homeowner. Notes are amortized over various lives of between 20 and 30 years, and the notes are secured by the residential property sold to the homeowners.

Mortgages receivable are considered past due if a payment has not been received by the 15th of the month. A penalty or late fee of 4% of the monthly principal is assessed. The note holder is notified of the penalty by a past-due letter.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

6. MORTGAGES RECEIVABLE *[cont'd]*

The total amount of net mortgages receivable was \$9,671,776 including discounted principal payments of \$10,270,435 as of June 30, 2022 and \$9,350,881 as of June 30, 2021, including discounted principal payments of \$9,886,359. Net present value of mortgages receivable was \$9,650,626 based on imputed interest rates ranging from 7.23% to 9.00% as of June 30, 2022 and \$9,303,329 based on imputed interest rates ranging from 7.23% to 9.00% as of June 30, 2021.

The current portion of mortgages receivable was \$965,615 and \$938,418 as of June 30, 2022 and 2021, respectively.

7. INVESTMENTS

Investments consisted of the following for the year ended June 30:

	<u>2022</u>	<u>2021</u>
Crosby Endowment Fund:		
Cost	\$ 576,717	\$ 560,606
Investment return	<u>124,348</u>	<u>266,969</u>
Fair Value	<u>\$ 701,065</u>	<u>\$ 827,575</u>

The Crosby Endowment Fund is managed by the Community Foundation of Western North Carolina (CFWNC). The investment and spending policies of CFWNC are the governing policies for the Crosby Endowment Fund. In setting its policies, CFWNC complies with the Uniform Prudent Management of Institutional Funds Act (UPMIFA), adopted by the State of North Carolina in April 2009, and FASB ASC 958-205. The Organization relies on CFWNC for compliance with State law and does not purport to report its endowment position or activity in compliance with FASB 958-205.

Fair value of the investments above are considered to be valued using Level 3 inputs.

8. INVENTORY

The Organization operates two used furniture and appliance stores. Most of the ReStore inventory is donated and is recorded as unrestricted contributions at fair value on the date of receipt. Inventory of such goods totaled \$246,616 and \$255,408 as of June 30, 2022 and 2021, respectively. Inventory also included developed and undeveloped lots held for future homes. The cost of acquiring and developing the lots was \$3,697,357 and \$2,858,428 which does not exceed net realizable value, as of June 30, 2022 and 2021, respectively.

9. CONSTRUCTION IN PROGRESS

As homes are constructed, the corresponding amounts for direct materials and other costs are recorded as construction in progress. Construction in progress consisted of twenty-one homes under construction at a cost of \$1,187,390 as of June 30, 2022 and thirty homes under construction at a cost of \$604,501 as of June 30, 2021.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

10. PROPERTY AND EQUIPMENT

Property and equipment consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Land	\$ 4,059,733	\$ 4,059,733
Buildings	6,669,156	6,330,186
Store equipment	168,614	163,937
Office equipment	494,980	446,614
Deconstruction equipment	1,480	1,480
Jobsite equipment	144,056	140,975
Vehicles	345,697	345,699
Less accumulated depreciation	<u>(3,472,613)</u>	<u>(3,253,686)</u>
Net property and equipment	\$ <u>8,411,103</u>	\$ <u>8,234,938</u>

Depreciation expense consisted of the following for the year ended June 30:

	<u>2022</u>	<u>2021</u>
ReStore operations	\$ 145,315	\$ 138,369
Other depreciation	<u>73,611</u>	<u>88,180</u>
Total depreciation expense	\$ <u><u>218,926</u></u>	\$ <u><u>226,549</u></u>

11. OTHER ASSETS

Other assets consisted of the following as of June 30:

	<u>2022</u>	<u>2021</u>
Refundable deposits and escrows	\$ 58,846	\$ 54,056
Cash surrender value of life insurance	61,311	69,609
Other receivables	<u>8,450</u>	<u>35,550</u>
Total other assets	\$ <u><u>128,607</u></u>	\$ <u><u>159,215</u></u>

12. HOMEOWNERS' ESCROW PAYABLE

The homeowners' escrow account consists of monies collected from homeowners in conjunction with the payment of mortgages receivable, which is retained by the Organization for the payment of homeowners' insurance and property taxes when due. The balance payable was \$250,365 and \$259,563 as of June 30, 2022 and 2021, respectively.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

13. NOTES PAYABLE

Notes payable are summarized as follows as of June 30:

	2022	2021
Note payable to First Bank, at an interest rate of 3.24%, due on June 28, 2031, with 119 monthly principal payments of \$26,742 and a final payment of \$2,758,783 due on June 28, 2031. This note is secured by property and improvements thereon, with a carrying value of \$6,146,847 as of June 30, 2022.	\$ 4,531,010	\$ 4,700,000
Thirty-four notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$20,000, at interest rates of 0%, payable in monthly installments of \$56, beginning on various dates from 7/1/2006 through 3/1/2009, secured by homeowners' property.	347,474	358,541
Forty-two notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$25,000, at interest rates of 0%, payable in monthly installments of \$69, beginning on various dates from 4/1/2009 through 09/06/2013, secured by homeowners' property.	669,052	704,050
Twenty-one notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$30,000, at interest rates of 0%, payable in monthly installments of \$83, beginning on various dates from 2/12/2015 through 8/25/2016, secured by homeowners' property.	492,339	537,505
Ten notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$40,000, at interest rates of 0%, payable in monthly installments of \$111, beginning on various dates from 10/10/2013 through 11/13/2016, secured by homeowners' property.	262,668	365,112

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

13. NOTES PAYABLE *[cont'd]*

	2022	2021
Sixty-one notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$35,000, at interest rates of 0%, payable in monthly installments of \$97 beginning on various dates from 10/27/2016 through 6/18/2022, secured by homeowners' property.	\$ 1,956,018	\$ 1,594,739
Eight notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$66,500, at interest rates of 0%, payable in monthly installments of \$185, beginning on various dates from 5/11/2017 through 1/11/2018, secured by homeowners' property.	391,612	464,762
Three notes payable to the North Carolina Housing Finance Agency, which run concurrently with homeowners' first mortgages, each in the original note amount of \$63,000, at an interest rate of 0%, payable in monthly installments of \$175, beginning on various dates from 6/29/2017 through 3/06/2018, secured by homeowners' property.	158,900	165,200
One note payable to the North Carolina Housing Finance Agency, which runs concurrently with homeowner's first mortgage, in the original note amount of \$11,388, at an interest rate of 0%, payable in monthly installments of \$56, beginning 12/1/2021, secured by homeowners' property.	6,322	---
Note payable to Buncombe County, at an interest rate of 2.0%, for the construction of 24 affordable homes. \$3,300 of this liability will be passed through to each homeowner in the form of a second mortgage to be repaid only in the event that the home is resold to a family which does not meet Buncombe County's income guidelines for affordable housing. The balance per house of \$6,700 plus accrued interest on the full \$10,000 per house will be due and payable upon the sale of the house. The second mortgages will be used to reduce the Organization's mortgages receivable resulting from the sale of the completed house.	46,400	120,100

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

13. NOTES PAYABLE [cont'd]

	<u>2022</u>	<u>2021</u>
Note payable to Buncombe County, without interest, for funds received upon the buyback of a home partially-funded by Buncombe County in the amount of \$15,000 in an earlier year. Buncombe County has authorized the Organization to apply this \$15,000 as subsidy to make this home more affordable to the next homebuyer of this home after the Organization rehabilitates this home.	\$ ---	\$ 15,000
Note payable to Park National Bank, at an interest rate of 4.65%, due in full on May 17, 2024, with accrued interest due monthly. This note is secured by the Organization's New Heights Phase I property and improvements thereon with a carrying value of \$2,517,091 as of June 30, 2022. This note require principal pay downs as finished lots and homes are sold.	641,346	1,048,345
Note payable to the U.S. Small Business Administration under the Paycheck Protection Program (PPP) with annual Interest of 1% received February 8, 2021. Payments on this note will begin in July 2022 unless otherwise forgiven as provided for under the terms of the PPP. The loan was fully forgiven on September 28, 2021.	---	562,375
	<u>9,503,141</u>	<u>10,635,729</u>
Less debt issuance costs – net of amortization	<u>(23,627)</u>	<u>(27,500)</u>
Total notes payable	\$ <u>9,479,514</u>	\$ <u>10,608,229</u>

Prime interest rate was 4.75% and 3.25% as of June 30, 2022 and 2021, respectively.

Maturities of notes payable are as follows:

Year ending June 30:		
2023	\$	1,007,578
2024		399,612
2025		368,631
2026		374,851
2027		381,279
Thereafter		<u>6,971,190</u>
Total	\$	<u><u>9,503,141</u></u>

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

13. NOTES PAYABLE *[cont'd]*

The notes payable to First Bank, and Park National Bank contain various covenants. For the years ended June 30, 2022 and 2021, no violations of debt covenants were noted.

14. LINES OF CREDIT

The Organization established a secured line of credit in the amount of \$650,000 with First Bank in June 2021. This line carries a variable interest rate of the Wall Street prime rate. This line matures on June 28, 2024. As of June 30, 2022, there was no outstanding balance on the line.

The Organization established an unsecured line of credit in the amount of \$250,000 with First National Bank in June 2020. This line carries a variable interest rate of the Wall Street prime rate and is due on demand. As of June 30, 2022, there was no outstanding balance on the line.

15. RESTRICTED NET ASSETS

As of June 30, net assets with donor restrictions are available for the following purposes:

	2022		2021
Building of homes	\$ 106,048	\$	180,560
Endowment fund - property	2,100,000		2,100,000
Endowment fund - investments	670,915		800,774
American Rescue Plan Act	1,094,914		---
Total net assets with donor restrictions	\$ 3,971,877	\$	3,081,334

The endowment fund was established in 2006, when the Organization received a contribution of rental property (land) valued at \$2.1 million, to establish an endowment fund. Under the terms of the contribution, the original property, or the proceeds from sale of such property, as well as the income from the property are restricted with a portion of the income being made available each year for the support of the Organization. As a condition of the gift, an endowment fund was established.

The \$5,000 used to establish the endowment fund is also restricted.

The endowment fund had income/(loss), net of expenses, in the amount of \$(99,710) and \$196,900 for the years ended June 30, 2022 and 2021, respectively. A portion of the endowment income is made available each year for the support of the Organization, according to the agreement between The Community Foundation of Western North Carolina, Inc. and the Organization. The amount made available annually is determined under the spending policies of the Community Foundation of Western North Carolina, Inc.

American Rescue Plan Act (ARPA) funds of \$1,600,000 were awarded through Buncombe County in November, 2021 to complete the infrastructure of one developments within the county, and to begin another in 2023.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

16. NET ASSETS RELEASED FROM RESTRICTION

Net assets were released from donor restrictions by incurring expenses satisfying restricted purposes as follows for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Building of Homes	\$ <u>685,646</u>	\$ <u>104,641</u>
Total net assets released from restriction	\$ <u>685,646</u>	\$ <u>104,641</u>

17. OPERATING LEASES

The Organization leased a parking lot under a non-cancelable operating lease which expired May 31, 2021. The organization also leased two houses under non-cancelable operating leases which expired May 31, 2021. Because these leases expired prior to June 30, 2021, there are no future minimum rentals under the leases.

Rental income from these leases and the costs of operating the rental property for the years ended June 30:

	<u>2022</u>	<u>2021</u>
Gross rents-Conference Room 33 Meadow Rd	\$ 204	\$ 77,110
Less cost of operations	<u>---</u>	<u>(18,575)</u>
Rents, net of related expenses	\$ <u>204</u>	\$ <u>58,535</u>

The Organization leases retail space, two copiers, several printers and a postage meter under two separate leases for varying amounts and varying time frames.

The following is a schedule by years of future minimum rental payments:

Year ending June 30:		
2023	\$	171,520
2024		163,609
2025		595
2026		595
2027		<u>---</u>
Total future minimum rentals	\$	<u>336,319</u>

Operating lease expense was \$219,913 and \$14,672 for the years ended June 30, 2022 and 2021, respectively.

18. FUNCTIONAL EXPENSES

The financial statements report certain categories of expenses that are attributed to more than one program or supporting function. Therefore, expenses require allocation on a reasonable basis that is consistently applied. The departmental expenses that are allocated include those from the Communications, Human Resources, Finance and Office Administration departments. The expenses are allocated based on the number of employees and on the square footage of space used.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

19. RETIREMENT PLAN

The Organization has a defined contribution retirement plan covering substantially all employees. Employees are eligible to participate in the plan after six months of service and reaching age 21. Employees become 100% vested after five years of service. Contributions provided to the plan for the year ended June 30, 2022 were \$261,671 which consisted of \$87,579 from the Organization and \$174,092 from employees. Contributions provided to the plan for the year ended June 30, 2021 were \$272,256, which consisted of \$106,716 from the Organization and \$165,540 from employees. The amount paid by the Organization is included in employee benefits.

20. COMMITMENTS AND CONTINGENCIES**Contingent Receivable**

When the Organization sells a home, the difference between the cost of the home and its appraised value is recorded as a second mortgage by the Organization. The second mortgage is amortized and forgiven over the life of the original first mortgage, or with more current mortgages, forgiven if the homeowner stays until the first mortgage is satisfied. If the home is sold by its owner before the first mortgage is satisfied, the seller is required to pay to the Organization any remaining balance on the second mortgage. The value of these contingent receivables totaled \$4,888,465 and \$4,389,248 as of June 30, 2022 and 2021, respectively. No provision for this contingency has been made in these financial statements, because the potential receipts from these second mortgages cannot be reasonably estimated. There are also some mortgages where the second mortgage is never forgiven and is due upon sales of the home. The value of these mortgages is \$926,919 and \$156,569 as of June 30, 2022 and 2021, respectively. As with the other contingent receivables, no provision for this contingency has been made in these financial statements, because the potential receipts from these second mortgages cannot be reasonably estimated.

Risk Management

The Organization is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Organization carries commercial insurance coverage for all risks of loss. Claims have not exceeded coverage in any of the previous three years.

Contingent Liabilities

The Organization owns a piece of property for which there is a possible contingent liability due to the condition of the property. No provision for this contingency has been made in these financial statements, because there is no fixed and determinable amount that can be reasonably estimated.

21. RELATED PARTY TRANSACTIONS

The Organization had no bank accounts with financial institutions of which a Board Member was an employee as of June 30, 2022, but did have balances of \$1,765,220 as of June 30, 2021, for which there was a Board Member that was an employee at such a financial institution for six months of fiscal year 2021. The Organization had loans payable to that same financial institution in the amounts of \$4,561,010 and \$4,700,000 as of June 30, 2022 and 2021, respectively. The Organization had seven bank accounts with a financial institution, of which a Board member is an employee in 2021, with total balances of \$6,823,636 and \$866,813 as of June 30, 2022 and 2021, respectively. One Board Member made a significant donations to the Organization in the year ended June 30, 2022. Several Board Members made contributions to the Organization in the year ended June 30, 2021. Overall board contributions made up 1% and 2% of total contributions for the years ended June 30, 2022 and 2021, respectively.

ASHEVILLE AREA HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

21. RELATED PARTY TRANSACTIONS *[cont'd]*

A Board Member is an attorney with a local law firm which paid \$26,698 and \$24,865 in legal fees during the years ended June 30, 2022 and 2021, respectively.

Five paid employees qualified for the Organization's home ownership program, were approved by the selection committee, and satisfied all requirements of the program. These employees had outstanding mortgage balances with the Organization in the amount of \$599,584 and \$466,795 as of the years ended June 30, 2022 and 2021, respectively. The total principal payments received in the years ended June 30, 2022 and 2021 for these five mortgages were \$19,676 and \$18,396, respectively.

The first employee's mortgage was entered into in June 2013 for a 30-year term in the amount of \$111,051 with monthly principal payments of \$308.

The second employee's mortgage was entered into in March 2016 for a 30-year term in the amount of \$141,236 with monthly principal payments of \$392.

The third employee's mortgage was entered into in October 2017 for a 30-year term in the amount of \$142,833 with monthly principal payments of \$397.

The fourth employee's mortgage was entered into in August 2018 for a 30-year term in the amount of \$156,942 with monthly principal payments of \$436.

The fifth employee's mortgage was entered into in March 2022 for a 30-year term in the amount of \$152,878 with monthly principal payments of \$425.

22. SUBSEQUENT EVENTS

On July 21, following the fiscal year-end, the Asheville ReStore suffered revenue and inventory losses due to a water main break while the installation of a city-mandated backflow valve installation was underway. An insurance claim was filed for losses, including water remediation services, but final determination of non-covered costs is not complete although not expected to be substantial.

The Organization has evaluated events that have occurred after June 30, 2022 and prior to October 7, 2022 (the date of issuance) for potential recognition or disclosure in the financial statements.