KNOXVILLE HABITAT FOR HUMANITY, INC.

Knoxville, Tennessee

FINANCIAL STATEMENTS

June 30, 2022 and 2021

PUGH CPAs

KNOXVILLE HABITAT FOR HUMANITY, INC.

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INDEPENDENT AUDITOR'S REPORT

Board of Directors
Knoxville Habitat for Humanity, Inc.
Knoxville, Tennessee

Opinion

We have audited the financial statements of Knoxville Habitat for Humanity, Inc. (the "Organization"), which comprise the statements of financial position as of June 30, 2022 and 2021, the related statements of activities, functional expenses, and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2022 and 2021, and the changes in its net assets and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (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.

Pugh & Company, P.C.

Certified Public Accountants
Knoxville, Tennessee
December 14, 2022

KNOXVILLE HABITAT FOR HUMANITY, INC.

STATEMENTS OF FINANCIAL POSITION

As of June 30,	2022	2021
ASSETS		
CURRENT ASSETS		
Cash and Cash Equivalents	$ 2,332,971	$ 2,957,414
Mortgages Receivable - Current Portion	1,014,424	1,043,808
Contributions Receivable, Net	411,145	278,788
Other Receivables	5,356	5,448
Inventory	169,921	198,608
Prepaid Expenses and Deposits	61,292	57,187
Homes Under Construction	1,355,657	286,261
Total Current Assets	5,350,766	4,827,514
NONCURRENT ASSETS		
Mortgages Receivable, Net	6,211,341	6,387,359
Contributions Receivable, Net	717,140	742,903
Beneficial Interest in Assets Held by Others	99,703	118,207
Property and Equipment, Net	745,683	806,948
Lease-to-Own Property	299,159	515,719
Real Estate Owned	2,288,680	1,191,553
Total Noncurrent Assets	10,361,706	9,762,689
TOTAL ASSETS	$ 15,712,472	$ 14,590,203
LIABILITIES AND NET ASSETS		
CURRENT LIABILITIES		
Accounts Payable	$ 71,729	$ 385,590
Accrued Expenses	112,319	144,501
Mortgage Escrow Accounts	180,837	216,411
Mortgages Sold with Recourse - Current Portion	330,228	320,396
Lease-to-Own Payments	28,647	43,897
Total Current Liabilities	723,760	1,110,795
NONCURRENT LIABILITIES		
Long-Term Lines of Credit	292,380	509,771
Mortgages Sold with Recourse, Net	2,302,385	2,237,485
Total Noncurrent Liabilities	2,594,765	2,747,256
TOTAL LIABILITIES	3,318,525	3,858,051
NET ASSETS		
Without Donor Restrictions	10,654,200	9,315,137
With Donor Restrictions	1,739,747	1,417,015
Total Net Assets	12,393,947	10,732,152
TOTAL LIABILITIES AND NET ASSETS	$ 15,712,472	$ 14,590,203

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

KNOXVILLE HABITAT FOR HUMANITY, INC.

STATEMENTS OF ACTIVITIES

For the Years Ended June 30,	2022	2021
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
REVENUES AND SUPPORT		
Contributions and Grants	$ 654,532	$ 811,466
Paycheck Protection Program	0	407,431
In-Kind Contributions	1,031,054	1,219,900
Home Sales, Net	510,739	541,599
Mortgage Discount Amortization	568,699	584,195
Fundraising Events, Net of Direct Expenses	194,870	146,287
ReStore Sales, Net	155,763	24,787
Rental Income	24,564	22,047
Other Revenues	88,892	136,512
Total Revenues Without Donor Restrictions	3,229,113	3,894,224
NET ASSETS RELEASED FROM RESTRICTIONS	2,367,958	1,637,309
Total Revenues and Support Without Donor Restrictions	5,597,071	5,531,533
EXPENSES		
Program Services:		
Construction, Supervision and Support	2,044,446	2,146,496
Family Support and Education	494,105	456,374
ReStore Retail Operations	1,020,784	955,852
Support Services:		
Management and Administrative	733,779	681,626
Fundraising and Development	429,412	363,600
TOTAL EXPENSES	4,722,526	4,603,948
OTHER REVENUES (EXPENSES)		
Interest Income	4,205	3,900
Gain (Loss) on Sale of Mortgages	327,794	630,843
Gain (Loss) on Sale of Assets	132,519	(1,252)
Total Other Revenues (Expenses), Net	464,518	633,491
INCREASE (DECREASE) IN NET ASSETS WITHOUT DONOR RESTRICTIONS	1,339,063	1,561,076
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions and Grants	2,704,494	2,525,928
Investment Return, Net	(13,804)	25,612
Net Assets Released from Restrictions	(2,367,958)	(1,637,309)
INCREASE (DECREASE) IN NET ASSETS WITH DONOR RESTRICTIONS	322,732	914,231
INCREASE (DECREASE) IN TOTAL NET ASSETS	1,661,795	2,475,307
TOTAL NET ASSETS, BEGINNING OF YEAR	10,732,152	8,256,845
TOTAL NET ASSETS, END OF YEAR	$ 12,393,947	$ 10,732,152

KNOXVILLE HABITAT FOR HUMANITY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES

For the Year Ended June 30, 2022

	Program Services				Supporting Services			
	Construction, Supervision and Support	Family Support and Education	ReStore Retail Operations	Total	Management and Administrative	Fundraising and Development	Total	Total Program and Supporting Services
Salaries and Related Benefits	$ 486,507	$ 450,241	$ 621,975	$ 1,558,723	$ 453,419	$ 210,060	$ 663,479	$ 2,222,202
Cost of Construction	1,070,628	0	0	1,070,628	0	0	0	1,070,628
Property Expense	31,014	0	0	31,014	0	0	0	31,014
Occupancy	44,854	5,981	197,357	248,192	47,844	2,990	50,834	299,026
Miscellaneous	21,769	3,522	27,994	53,285	2,734	5,241	7,975	61,260
Office Expense	739	600	0	1,339	27,324	16,431	43,755	45,094
Professional Fees	13,871	0	0	13,871	30,133	0	30,133	44,004
Insurance	7,510	793	26,181	34,484	20,219	397	20,616	55,100
Supplies and Equipment	21,346	4,487	17,804	43,637	74,937	20,258	95,195	138,832
Taxes and Licenses	2,694	0	0	2,694	7,095	0	7,095	9,789
Telephone	5,204	694	22,899	28,797	5,551	347	5,898	34,695
Travel, Conferences, Meetings	9,263	10,262	9,560	29,085	23,380	15,519	38,899	67,984
Homeowner Services	0	2,454	0	2,454	0	0	0	2,454
Vehicle Expense	33,232	0	26,111	59,343	0	0	0	59,343
Interest Expense	190,982	0	0	190,982	0	0	0	190,982
Advertising and Marketing	23,809	14,026	46,064	83,899	2,832	151,544	154,376	238,275
Volunteer Appreciation	7,875	0	3,939	11,814	24,941	3,490	28,431	40,245
Tithes and Donations	0	0	0	0	7,100	0	7,100	7,100
Depreciation and Amortization	73,149	1,045	20,900	95,094	6,270	3,135	9,405	104,499
TOTAL EXPENSES	$ 2,044,446	$ 494,105	$ 1,020,784	$ 3,559,335	$ 733,779	$ 429,412	$ 1,163,191	$ 4,722,526

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

KNOXVILLE HABITAT FOR HUMANITY, INC.

STATEMENTS OF FUNCTIONAL EXPENSES (Continued)

For the Year Ended June 30, 2021

	Program Services				Supporting Services			
	Construction, Supervision and Support	Family Support and Education	ReStore Retail Operations	Total	Management and Administrative	Fundraising and Development	Total	Total Program and Supporting Services
Salaries and Related Benefits	$ 493,301	$ 423,850	$ 607,371	$ 1,524,522	$ 453,934	$ 172,495	$ 626,429	$ 2,150,951
Cost of Construction	1,236,666	0	0	1,236,666	303	0	303	1,236,969
Property Expense	35,537	0	2,808	38,345	676	0	676	39,021
Occupancy	38,603	5,147	169,855	213,605	41,177	2,574	43,751	257,356
Office Expense	1,007	752	0	1,759	27,466	16,957	44,423	46,182
Professional Fees	0	0	0	0	22,137	0	22,137	22,137
Insurance	7,791	831	27,416	36,038	17,200	415	17,615	53,653
Supplies and Equipment	16,983	5,569	21,256	43,808	73,406	15,278	88,684	132,492
Taxes and Licenses	4,050	0	0	4,050	(6,394)	0	(6,394)	(2,344)
Telephone	4,684	625	20,611	25,920	4,997	312	5,309	31,229
Travel, Conferences, Meetings	2,318	1,445	641	4,404	10,225	693	10,918	15,322
Homeowner Services	0	596	0	596	0	0	0	596
Vehicle Expense	24,404	0	19,175	43,579	0	0	0	43,579
Interest Expense	189,067	0	2,596	191,663	0	0	0	191,663
Advertising and Marketing	15,972	10,619	40,789	67,380	2,130	147,735	149,865	217,245
Volunteer Appreciation	3,474	450	1,911	5,835	15,467	127	15,594	21,429
Tithes and Donations	0	0	0	0	10,000	0	10,000	10,000
Mortgage Forgiveness	0	5,006	0	5,006	0	0	0	5,006
Miscellaneous	2,751	486	21,455	24,692	2,912	4,019	6,931	31,623
Depreciation and Amortization	69,888	998	19,968	90,854	5,990	2,995	8,985	99,839
TOTAL EXPENSES	$ 2,146,496	$ 456,374	$ 955,852	$ 3,558,722	$ 681,626	$ 363,600	$ 1,045,226	$ 4,603,948

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

KNOXVILLE HABITAT FOR HUMANITY, INC.

STATEMENTS OF CASH FLOWS

For the Years Ended June 30,	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase (Decrease) in Total Net Assets	$ 1,661,795	$ 2,475,307
Adjustments to Reconcile Change in Net Assets to		
Net Cash Provided by (Used in) Operating Activities:		
Depreciation and Amortization	104,499	99,839
(Gain) Loss on Sale of Mortgages	(327,794)	(630,843)
(Gain) Loss on Sale of Assets	(132,519)	1,252
Home Sales, Net	(510,739)	(541,599)
Mortgage Discount Amortization	(568,699)	(584,195)
Mortgage Payments Received	946,358	870,760
Proceeds from Sales of Mortgages	550,040	1,241,675
Amortization of Discount on Other Long-Term Debt	190,968	189,067
Income from Beneficial Interest, Net	13,804	(25,612)
(Increase) Decrease in Assets:		
Contributions Receivable, net	(106,594)	(894,322)
Other Receivables	92	830
Inventory	28,687	(53,212)
Prepaid Expenses	(4,105)	(1,402)
Homes Under Construction	(1,069,396)	136,390
Lease-to-Own Property	216,560	(13,336)
Real Estate Owned	(964,608)	(624,807)
Increase (Decrease) in Liabilities:		
Accounts Payable and Accrued Expenses	(361,293)	367,783
Mortgage Escrow Accounts	(35,574)	(21,645)
Total Adjustments	(2,030,313)	(483,377)
Net Cash Provided by (Used In) Operating Activities	(368,518)	1,991,930
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchases of Property and Equipment	(43,234)	(60,434)
Distributions from Beneficial Interest	4,700	4,400
Net Cash Provided by (Used in) Investing Activities	(38,534)	(56,034)
CASH FLOWS FROM FINANCING ACTIVITIES		
Net Borrowing (Repayment) on Lines of Credit	(217,391)	54,020
Principal Payments on Installment Loans	0	(74,253)
Net Cash Provided by (Used in) Financing Activities	(217,391)	(20,233)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(624,443)	1,915,663
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	2,957,414	1,041,751
CASH AND CASH EQUIVALENTS AT END OF YEAR	$ 2,332,971	$ 2,957,414
Supplemental Disclosures of Cash Flow Information:		
Cash Paid During the Year for Interest	$ 14	$ 2,596
Supplementary Disclosures of Noncash Investing Activities:		
Reduction of Mortgages Sold with Recourse	$ 338,482	$ 400,434

KNOXVILLE HABITAT FOR HUMANITY, INC.

NOTES TO FINANCIAL STATEMENTS

June 30, 2022 and 2021

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization - Knoxville Habitat for Humanity, Inc. (“Habitat” or the “Organization”), is a not-for-profit corporation, incorporated in the State of Tennessee in 1985. The purpose of Habitat is to provide simple, decent, affordable homes to low income families. Homes are sold at no profit and financed with noninterest-bearing mortgages. The activities of the Organization are funded by a diverse group of supporters including local and state government agencies, foundations, churches, individuals, and businesses.

Habitat is an affiliate of Habitat for Humanity International, Inc. (“Habitat International”), a nondenominational Christian not-for-profit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, training publications, prayer support, and in other ways, Knoxville Habitat for Humanity is primarily and directly responsible for its own operations.

Habitat operates a ReStore, a retail operation, where donations of used clothing, household furnishings, appliances, and other miscellaneous items are sold to the general public. In addition, building supplies not utilized by Habitat in home construction and certain purchased inventory items are also sold at ReStore. Profits from merchandise sales are used to assist in Habitat’s mission of building homes.

Basis of Accounting - The financial statements are prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as promulgated by the Financial Accounting Standards Board (FASB). The financial statements are prepared on the accrual basis of accounting.

Financial Statement Presentation - Habitat is required to report information regarding its financial position and activities according to two classes of net assets: net assets without donor restrictions and net assets with donor restrictions.

Contributions - Contributions received are recorded as increases in net assets without donor restrictions or net assets with donor restrictions, depending on the existence and/or nature of any donor-imposed restrictions. When a restriction expires (that is, when a stipulated time restriction ends or purpose restriction is accomplished), net assets with donor restrictions are reclassified to net assets without donor restrictions and reported in the statements of activities as net assets released from restrictions.

Income Taxes - Habitat qualifies as a tax-exempt organization under Section 501(c)(3) of the U.S. Internal Revenue Code; therefore, no expense has been recognized for income taxes in the accompanying financial statements. Habitat files annual returns of organizations exempt from income taxes with the IRS. Contributions to Knoxville Habitat for Humanity are deductible as charitable gifts for federal income tax purposes.

Presentation of Certain Taxes - Habitat collects various taxes from customers and remits these amounts to applicable taxing authorities. The Organization’s accounting policy is to exclude these taxes from revenues and cost of sales.

Cash and Cash Equivalents - For purposes of the statements of cash flows, Habitat considers all highly liquid investments with an initial maturity of three months or less when purchased to be cash equivalents.

Contributions Receivable - Contributions receivable are recognized upon notification of a donor’s promise to give that is not dependent upon the occurrence of a specified future and uncertain event. Contributions receivable are recorded at estimated net realizable value if the amounts are due within one year or at the present value of the estimated future cash flows if expected to be received over more than one year, using a discount rate approximately equivalent to treasury yields of a similar maturity. Amortization of the resulting discount is recognized as additional contribution revenue (see Note 5).

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In-Kind Contributions - Donated services and materials are recognized as contributions in accordance with accounting standards at their estimated fair value if the services (a) create or enhance Habitat's non-financial assets or (b) require specialized skills that are performed by people with those skills that would otherwise be purchased. No amounts have been reflected in these financial statements for certain donated volunteer services because they do not qualify for recording under the guidelines of accounting standards; however, a substantial number of volunteers have donated a significant amount of time and perform a variety of tasks and services that assist Habitat in its programs, supporting services, ReStore retail operations, and fundraising campaigns. Donated materials consist primarily of inventory items for sale in the ReStore and construction materials.

Escrow Reserves - Habitat services a portion of its portfolio of mortgages receivable. Included in cash are amounts received from homeowners for insurance, property taxes, homeowner dues, etc. These amounts are used to pay amounts as they become due. Also, Habitat receives payments from potential buyers in various stages of the homeownership program to be used for closing costs at the time the home purchase is complete. These amounts are held in escrow accounts until the disbursement is made at closing or refunded to the individual if they do not complete the program and become a homeowner. Mortgage escrows as of June 30, 2022 and 2021 totaled $180,837 and $216,411, respectively, for tax and insurance escrow. There were no potential homeowner deposits as of June 30, 2022 and 2021.

Home Sales and Mortgage Notes Receivable - Transfers to homeowners are recorded at the gross amount of payments to be received over the lives of the mortgage notes receivable. Transfers for the years ended June 30, 2022 and 2021 were $936,525 and $1,045,000, respectively. These mortgage payments do not include interest and, accordingly, the mortgages have been discounted at various interest rates based upon prevailing market rates for low income housing at the inception of the mortgages. Discounts are amortized using the straight-line method over the term of the mortgages. The discounted value of mortgages at the time of sale is generally less than the homes' fair market value. Discounts on mortgages issued during the years ended June 30, 2022 and 2021, net of unamortized discounts totaled $425,786 and $503,401, respectively. Income recognized from mortgage discount amortization was $568,699 and $584,195 for the years ended June 30, 2022 and 2021, respectively.

Management believes that losses resulting from non-payment of mortgages are not probable and reasonably estimable, and accordingly, no allowance for mortgage notes receivable has been recorded. In addition, Habitat can reclaim houses through foreclosure in the event that a loan is deemed to be uncollectible, and management believes any reclaimed house can be resold at or above the amount of unpaid, discounted loan principal plus costs to sell the home. Past due status is based on contractual terms of the mortgage notes receivable. At 120 days past due, the mortgages receivable become subject to foreclosure.

"Silent" Mortgages Receivable - In order to protect against the resale of Habitat's homes for a profit, the Organization holds a "silent" mortgage on every Habitat home that represents the difference between the estimated fair market value of the home and the mortgage receivable as of the transfer date. As long as the homeowner makes timely payments on the first mortgage and the second mortgage, where applicable, Habitat will forgive a portion of the outstanding principal balance of the "silent" mortgage ratably over the course of the first mortgage loan. No payments are made on these "silent" mortgages unless a house is resold, in which case Habitat holds the right of first refusal. As gain contingencies are not likely to be realized, these "silent" mortgages are not recorded as assets on the statement of financial position.

Homes Under Construction and Real Estate Owned - Homes under construction represents houses which are currently under construction for families. Lease-to-own property consists of houses currently rented to families under a program in which the families can later purchase the houses. Real estate owned consists of land and improvements to be utilized as lots for future homeowners as well as foreclosed and uninhabited houses that are available for future homeowners. Purchased land and materials for the construction of houses are recorded at cost, and costs incurred to improve land are capitalized when incurred. Repossessed homes are recorded at the outstanding mortgage balance at the date of reclamation. Habitat records the value of donated land and material for the construction of homes at fair value at the date of the donation.

Inventory - Construction materials inventory consists of materials purchased in bulk for construction of future homes and preconstructed sheds to be delivered to completed homes. As of June 30, 2022 and 2021, construction materials were $21,742 and $29,787, respectively. ReStore inventory consists of donated items and items purchased by Habitat and offered for public purchase at ReStore. Inventory is stated at the lower of cost or net realizable value. ReStore inventory as of June 30, 2022 and 2021 was $148,180 and $168,821, respectively.

NOTE 1 – NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Functional Expenses - The costs of provided various programs and other activities have been summarized on a functional basis in the statement of activities and in the statement of functional expenses. Expenses that can be identified with a specific program or support service are charged directly to that program or support service. Indirect expenses are allocated among the programs and supporting services benefitted, based on estimates of time and effort.

Advertising and Marketing - Habitat recognizes advertising expenses as incurred. For the years ended June 30, 2022 and 2021, Habitat recognized a total of $238,275 and $217,245, respectively, in advertising and marketing expense.

Property and Equipment - Purchased property and equipment is valued at cost. Donated property and equipment is recorded at the estimated fair value at the date of the gift to the Organization. Purchases or donations of property and equipment of $1,000 or more are capitalized. Depreciation is computed on the straight-line method over the estimated useful lives of three to forty years. Amortization is calculated for capitalized leasehold improvements using the straight-line method over the shorter of the useful life of the improvement or the remaining life of the lease.

Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could vary from those estimates. Management believes that these estimates and assumptions provide a reasonable basis for the fair presentation of the financial statements.

Revenue Recognition - The Organization recognizes revenue in accordance with FASB Accounting Standards Codification (ASC) Topic 606, *Revenue from Contracts with Customers*. ASC 606 applies to exchange transactions with customers that are bound by contracts or similar arrangements and establishes a performance obligation approach to revenue recognition. The Organization recorded the following exchange transaction revenue in its statements of activities and changes in net assets for the years ending June 30, 2022 and 2021:

> <u>ReStore Sales</u> – To help fund the Organization's ability to provide affordable housing for low-income families, the Organization operates a home improvement retail store, which sells a wide assortment of building materials and home improvement products. The performance obligation is the delivery of the goods to the customer. The transaction price is established by the Organization based on retail prices. As each item is individually priced, no allocation of the transaction price is necessary. The Organization recognizes revenue as the customer pays and takes possession of the merchandise. Some merchandise is sold with the right to return. If probable customer returns exist at the end of an accounting period, the Organization estimates and records in its financial statements as a liability for such returns, which offsets revenue. No liability for probable customer returns was considered necessary as of June 30, 2022 and 2021.
>
> <u>Home Sales</u> – The Organization recognized revenues from construction of homebuilding contracts at the closing of the sale using the deposit method. During construction, all direct material and labor costs and those indirect costs related to acquisition and construction are capitalized, and all customer deposits are treated as liabilities. Capitalized costs are charged to earnings upon closing. Costs incurred in connection with completed homes and general and administrative are expensed as incurred. Payment typically is due over time in installments, based on terms specified in the contracts. All mortgages and contracts for deed are due based upon the note terms. Construction costs include all direct material and labor cost, subcontract cost and those indirect costs related to construction of the home, such as indirect labor, supplies, tools, and repairs. Selling, general and administrative costs are expensed as incurred.

Adoption of New Accounting Standards - In September 2020, the FASB issued ASU 2020-207, *Not-for-Profit Entities (Topic 958) Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets (ASU 2020-07)*. Effective for the Organization in 2022, the amendments in this Update apply to nonprofit organizations 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 amendments address presentation and disclosure of contributed nonfinancial assets. The term nonfinancial asset includes fixed assets (such as land, buildings, and equipment), use of fixed assets or utilities, materials and supplies, intangible assets, services, and unconditional promises of those assets. The adoption of ASU 2020-07 did not have a material impact on the Habitat's financial statements.

NOTE 1 - NATURE OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Recent Accounting Pronouncements - In February 2016, the FASB issued ASU 2016-02, *Leases (Topic 842)*. The guidance in this ASU supersedes the leasing guidance in Topic 840, *Leases*. Under the new guidance, lessees are required to recognize lease assets and lease liabilities on the balance sheet for all leases with terms longer than 12 months. Leases will be classified as either finance or operating, with classification affecting the pattern of expense recognition in the income statement. The new standard is effective for fiscal years beginning after December 15, 2021. The Organization is currently evaluating the impact of the adoption of ASU 2016-02 on its financial statements.

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 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 - Management has evaluated subsequent events through December 14, 2022, which is the date the financial statements were available to be issued. See Note 10.

NOTE 2 - CONCENTRATION OF CREDIT RISK

Habitat maintains its cash and cash equivalents accounts in several financial institutions in East Tennessee. The cash accounts are insured by the Federal Deposit Insurance Corporation (FDIC) up to $250,000 per legal ownership. A summary of bank balances as of June 30, 2022 and 2021 is as follows:

	2022	2021
FDIC Insurance Covered Balances	$ 1,004,085	$ 1,024,743
Uninsured Balances	1,518,596	1,945,055
Total Bank Balances	$ 2,522,681	$ 2,969,798

NOTE 3 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS

Knoxville Habitat for Humanity, Inc. maintains an account (“the Habitat Fund”) which is held and administered by the East Tennessee Foundation (“ETF”) for the benefit of Habitat. The fund is the property of the ETF, and as such the ETF shall have the ultimate authority and control of all property of the fund and income derived therefrom, for the charitable purposes of the ETF. Under the terms of Habitat’s agreement with the ETF, at the ETF’s discretion, only the net income of the fund, or an amount calculated according to the annual spending rate (a percentage of market value) shall be distributed to Habitat each year. In establishing the fund, Habitat granted variance power to the ETF. That power gives the ETF the right to make fund distributions to another not-for-profit organization of its choice or amend the terms of the agreement as it sees necessary if Habitat ceases to exist or the governing body of the ETF votes that support of Habitat (a) is no longer necessary, (b) is incapable of fulfillment, or (c) is inconsistent with the charitable needs of the East Tennessee community. At June 30, 2022, the endowment has a value of $99,703, which is reported in the statement of financial position as beneficial interest in assets held by others. The associated net assets have been classified as subject to the East Tennessee Foundation spending policy and appropriation. Any appropriations can be used for general operations. From time to time, the fair value of assets associated with the donor-restricted endowment funds may fall below the level the donors require Habitat to retain as a fund of perpetual duration. In accordance with U.S. GAAP deficiencies of this nature are reported in net assets with donor restrictions. The endowment fund at ETF at June 30, 2022 had a deficiency of $297.

NOTE 3 - BENEFICIAL INTEREST IN ASSETS HELD BY OTHERS (Continued)

Habitat's beneficial interest in assets held by the East Tennessee Foundation is recorded at fair value, which is estimated as the fair value of the underlying assets. Fair value is defined as the exchange price that would be received for an asset or paid to transfer a liability in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. A valuation hierarchy has been established for disclosure of the inputs used to measure fair value. This hierarchy prioritizes the inputs into three broad levels. Level 1 inputs are quoted prices in active markets for identical assets or liabilities as of the measurement date. Level 2 inputs are quoted prices for similar assets or liabilities in active markets or inputs that are observable for the asset or liability, either directly or indirectly through market corroboration, for substantially the full term of the financial instrument. Level 3 inputs are unobservable inputs based on an entity's assumptions used to measure assets or liabilities at fair value. A financial asset or liability's classification within the hierarchy is determined based on the lowest level input that is significant to the fair value measurement.

Habitat's beneficial interest in assets held by the ETF are held in the ETF's long-term commingled investment fund, for which there is no active market. This investment fund is comprised of fixed income, equity, and alternative investments and is reported at fair value using Level 3 inputs. The fair value measurements consider observable data that may include closing prices, calculated net asset per share, pricing models, and discounted cash flows.

The table below includes a roll forward of Habitat's beneficial interest in assets held by others, which is measured at fair value on a recurring basis and classified within Level 3 of the valuation hierarchy.

	2022	2021
Fair Value at Beginning of Year	$ 118,207	$ 96,995
Interest and Dividends	938	678
Net Realized Gain (Loss)	2,148	2,718
Net Unrealized Gain (Loss)	(15,478)	23,607
Administrative Fees	(1,412)	(1,391)
Distributions	(4,700)	(4,400)
Fair Value at End of Year	$ 99,703	$ 118,207

NOTE 4 - AVAILABILITY AND LIQUIDITY

Financial assets available for general expenditure, that is, without donor or other restrictions limiting their use, within one year of the balance sheet date, are as follows:

	2022	2021
Financial Assets at Year End	$ 10,792,080	$ 11,533,927
Less Those Unavailable for General Expenditures		
Within One Year Due to:		
Restrictions by Donor with Purpose Restrictions	(1,640,044)	(1,298,808)
Restrictions by East Tennessee Foundation Spending Policy and Appropriations	(99,703)	(118,207)
Designations by Board of Directors	(500,000)	(500,000)
Noncurrent Mortgages Receivable	(6,211,341)	(6,387,359)
	$ 2,340,992	$ 3,229,553

Habitat's goal is generally to maintain financial assets to meet 90 days of operating expenses (approximately $1.2 million). As part of its liquidity plan, excess cash is invested in short-term investments, including money market accounts and certificates of deposit. Additionally, Habitat has five lines of credit available to meet unanticipated cash flow needs (see Note 10).

NOTE 5 - CONTRIBUTIONS RECEIVABLE

The timing and amounts of expected payments of contributions receivable as of June 30, 2022 are summarized below.

2023	$	411,145
2024		357,433
2025		149,476
2026		131,607
2027		54,190
2028		46,028
2029		6,417
Less: Present Value Discount		(28,011)
Total	$	1,128,285

In 2020, the Organization began a capital campaign to raise funds for the Ellen's Glen neighborhood, which will provide 35 homes to Knoxville families, and the Readiness Fund, which will allow the Organization to purchase viable land for future development. Unconditional pledges resulting from this campaign, which were expected to be received over more than one year, were recorded by the Organization at the present value of the amount expected to be received, using a discount rate approximately equivalent to treasury yields of similar maturity. In estimating the cash flows, the Organization has considered factors such as when the promise is expected to be collected, the donor's creditworthiness, past collection experience, and other relevant factors. The estimated realizable values of these unconditional pledges are summarized in the table above.

NOTE 6 - MORTGAGES RECEIVABLE

Habitat sells homes to qualifying families and provides interest free first mortgages for up to thirty years. Initially, the qualifying family contributes "sweat equity" during the construction phase, and then the home is deeded to the family when the "sweat equity" requirements are met. Mortgage payments, net of insurance, taxes, and other escrow items are applied to reduce the mortgages receivable. Second mortgages are sometimes provided for periods of three to twenty-five years to assist homeowners with closing costs.

First and second (where applicable) mortgages are recorded at present value based upon prevailing market rates for low income housing at the inception of the mortgage. The difference between the face amount of the note and its present value is accounted for as a discount and amortized over the life of the note using the straight-line method. The notes have been discounted at various rates ranging from 7.23% to 8.48%.

First and second mortgages receivable as of June 30, 2022 and 2021 are as follows, with first mortgages that have been sold with recourse to the Tennessee Housing Development Agency (THDA) or to financial institutions shown separately (Note 9).

	Unpledged	Sold to THDA with Recourse	Sold to Financial Institutions with Recourse	Total
2022				
Face Value	$ 10,271,428	$ 3,331,984	$ 2,877,419	$ 16,480,831
Less Unamortized Discounts	(5,678,246)	(1,850,187)	(1,726,633)	(9,255,066)
Net Present Value	$ 4,593,182	$ 1,481,797	$ 1,150,786	$ 7,225,765
2021				
Face Value	$ 10,831,357	$ 3,589,875	$ 2,432,410	$ 16,853,642
Less Unamortized Discounts	(5,957,986)	(1,999,674)	(1,464,815)	(9,422,475)
Net Present Value	$ 4,873,371	$ 1,590,201	$ 967,595	$ 7,431,167

NOTE 6 - MORTGAGES RECEIVABLE (Continued)

Principal payments due on mortgage notes receivable as of June 30, 2022 are as follows:

	Unpledged	THDA Mortgages with Recourse	Mortgages Sold to Financial Institutions with Recourse	Total
2023	$ 684,196	$ 220,441	$ 109,788	$ 1,014,425
2024	657,633	219,751	109,788	987,172
2025	625,762	219,751	109,788	955,301
2026	602,905	216,676	109,788	929,369
2027	573,974	213,143	109,788	896,905
Thereafter	7,126,958	2,242,222	2,328,479	11,697,659
	$ 10,271,428	$ 3,331,984	$ 2,877,419	$ 16,480,831

NOTE 7 - PROPERTY AND EQUIPMENT

Property and equipment as of June 30, 2022 and 2021 is summarized as follows:

	2022	2021
Buildings and Real Estate	$ 771,390	$ 771,391
Equipment, Furniture, Fixtures	184,735	177,508
Vehicles	382,098	380,266
Leasehold Improvements - ReStore	171,330	164,333
Other Fixed Assets	40,236	40,236
	1,549,789	1,533,734
Less Accumulated Depreciation	(804,106)	(726,786)
	$ 745,683	$ 806,948

Depreciation expense of $91,578 and amortization expense of $12,921 was charged to operations for the year ended June 30, 2022 ($87,735 and $12,104 in 2021).

NOTE 8 - HOME CONSTRUCTION COSTS

The following is a summary of home building activity for the years ended June 30, 2022 and 2021:

	Number	Costs
Homes Under Construction, July 1, 2021	7	$ 286,261
Additional Costs Incurred on Beginning Inventory	0	460,409
New Homes Started During the Year	13	830,462
Transfers from Real Estate Owned	0	525,196
Transfers to Homeowners	(7)	(746,671)
Homes Under Construction, June 30, 2022	13	$ 1,355,657
Homes Under Construction, July 1, 2020	8	$ 422,651
Additional Costs Incurred on Beginning Inventory	0	413,245
New Homes Started During the Year	10	501,616
Transfers to Real Estate Owned	(1)	(6,809)
Transfers to Homeowners	(10)	(1,044,442)
Homes Under Construction, June 30, 2021	7	$ 286,261

NOTE 9 - MORTGAGES SOLD WITH RECOURSE

Habitat sells certain mortgage receivables to THDA under its “New Start Program”. In addition, Habitat also sells certain mortgage receivables to financial institutions. These loans are sold with recourse, meaning that Habitat has an obligation to repurchase the loans if certain conditions of the sale are not met, including the requirement for each homeowner to make timely payments under the terms of the mortgage notes. The recourse is in place until each loan has been repaid in full by the homeowner. As a result of the obligation for Habitat to repurchase these loans, these transactions are not treated as sales to THDA or financial institutions, but are instead treated as secured borrowings. The outstanding balances of the mortgages receivable that were transferred to THDA and financial institutions are therefore included in the mortgages receivable balances on the statement of financial position (Note 6). A corresponding long-term debt obligation to THDA or financial institutions is recorded for the same amount of these transferred mortgages receivable. These long-term debt obligations are noninterest-bearing, with maturities that correspond with the future principal payments due on the related mortgages receivable and are secured by noninterest-bearing first mortgages held by Habitat with a discounted value of $2,632,583 as of June 30, 2022 ($2,557,796 as of June 30, 2021). The notes payable have an undiscounted balance of $6,209,403 as of June 30, 2022 ($6,022,285 as of June 30, 2021). Discount rates ranging from 7.23% to 8.48% were applied to arrive at the net present value of the notes payable at issuance. Gain (Loss) on Sale of Mortgages of $327,794 has been recognized in 2022 ($630,843 in 2021) to present the difference between the undiscounted notes payable balances and their present value at the time of issuance. The discount is amortized to interest expense using the straight-line method over the respective terms of the notes. The unamortized discount as of June 30, 2022 amounted to $3,576,820 ($3,464,490 as of June 30, 2021).

NOTE 10 - LINES OF CREDIT / SUBSEQUENT EVENTS

The Organization has a $350,000 line of credit that expires December 4, 2022. Interest is variable, and the line is secured by a First Deed of Trust on the office property on 1501 Washington Avenue, Knoxville, Tennessee. There was a balance of $37,083 and $24,331 as of June 30, 2022 and 2021, respectively. This loan was renewed on December 13, 2022 with a new maturity date of December 13, 2031.

The Organization has a $200,000 revolving line of credit that expires August 25, 2022. Interest is variable, and the line is unsecured. There was a balance of $40,576 and $71,695 as of June 30, 2022 and 2021, respectively. On December 6, 2022 this line of credit was renewed and has a new maturity date of December, 6, 2023. Additionally, the maximum borrowing amount changed from $200,000 to $63,000.

The Organization has a $500,000 unsecured revolving line of credit that expires February 16, 2023, with variable interest. There was a balance of $0 and $199,025 as of June 30, 2022 and 2021, respectively.

The Organization has a $500,000 unsecured line of credit that expires August 28, 2022, with variable interest. There was a balance of $214,721 and $214,721 as of June 30, 2022 and 2021, respectively. On August 4, 2022, this line of credit was renewed and has a new maturity date of August 28, 2025.

The Organization opened a $500,000 unsecured line of credit on November 10, 2021 that expires November 10, 2022, with variable interest. There was a balance of $0 as of June 30, 2022. On December 7, 2022, this line of credit was renewed and has a new maturity date of December 10, 2023.

On December 13, 2022, the Organization opened a $200,000 term loan, bearing interest at 5.75% until January of 2028 and variable interest thereafter. The loan is to be repaid with monthly payments of principal and interest until final maturity on June 13, 2038. The loan is secured by a Second Deed of Trust on the office property on 1501 Washington Avenue, Knoxville, Tennessee.

NOTE 11 - NET ASSETS

Net assets without donor restrictions includes amounts designated by the Board of Directors for the repurchase of mortgages sold to THDA or financial institutions. These amounts total $500,000 as of June 30, 2022 and 2021.

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

	2022	2021
Subject to Expenditure for a Specific Purpose:		
Construction of Homes	$ 372	$ 223,020
Ellen's Glen	375,151	754,648
Readiness Fund	0	321,140
Either Readiness or Ellen's Glen	1,264,521	0
	1,640,044	1,298,808
Subject to East Tennessee Foundation Spending Policy & Appropriation:		
Investment in Perpetuity (including amounts above original gift amount of $100,000, which, once appropriated, is expendable to support):		
General Operations	99,703	118,207
Total Nets Assets with Donor Restrictions	$ 1,739,747	$ 1,417,015

NOTE 12 - RESTORE SALES

The following is a schedule of ReStore sales and cost of sales for the years ended June 30:

	2022	2021
Sales	$ 1,353,350	$ 1,195,740
Cost of Sales	(1,197,587)	(1,170,953)
ReStore Sales, Net	$ 155,763	$ 24,787

NOTE 13 - RELATED PARTY TRANSACTIONS

During the years ended June 30, 2022 and 2021, Habitat recorded $7,000 and $10,000, respectively, in tithes to Habitat for Humanity International to be used to construct homes in economically depressed areas around the world. Additionally, Habitat paid a “U.S. Stewardship and Organization Stability” fee of $15,000 to Habitat for Humanity International for the years ended June 30, 2022 and 2021.

NOTE 14 - OPERATING LEASES

Habitat has an operating lease agreement for its ReStore retail operations. Rent expense, which is included in occupancy costs in the statement of functional expenses, paid under this lease was $191,129 for the year ended June 30, 2022 ($154,079 in 2021). A security deposit of $9,000 was paid at the inception of this lease and is included within prepaid expenses and deposits as of June 30, 2022 and 2021 in the statement of financial position.

On September 25, 2019, the Organization renewed the operating lease for the Restore, expiring December 31, 2030. The renewal allows for a reimbursement up to $50,000 for ReStore capital improvements as well as a lease abatement of $100,000 from January 1, 2020 through December 31, 2022.

NOTE 14 - OPERATING LEASES (Continued)

The future minimum rental payments for the years ending June 30:

2023	$	193,182
2024		209,849
2025		209,849
2026		215,129
2027		220,409
Thereafter		771,432
	$	1,819,850

The Organization also leased storage space for its retail operations on a month-to-month basis during the year ended June 30, 2022 for a total of $800 ($2,400 in 2021).

Habitat leases one of its vacant lots for a cell tower structure under a multi-year operating lease. The monthly lease payments vary month to month, based on certain criteria. Lease income recorded by Habitat under this lease total $11,023 and $21,748 for the years ended June 30, 2022 and 2021, respectively.

Additionally, participants in Habitat's homeownership program lease homes under lease-to-own agreements. While working toward homeownership, these tenants pay monthly rent. These payments will be applied to the mortgage loan once the tenant completes the program and assumes the debt. Lease-to-own payments held by Habitat under this program totaled $28,647 and $43,897 as of June 30, 2022 and 2021, respectively.

NOTE 15 - RETIREMENT PLAN

The Organization has a SIMPLE IRA retirement plan covering substantially all of its employees. Eligible employees can make contributions to the plan up to the maximum allowed each year by the IRS. Habitat will match the employee contributions up to 3% of gross compensation. Retirement expense is $44,903 for the year ended June 30, 2022 ($40,988 in 2021) and is included in "Salaries and Related Benefits" in the statements of functional expenses.

NOTE 16 - CONTINGENCIES

The nature and scope of Habitat's operations bring it into regular contact with the general public and a variety of businesses and governmental entities in the ordinary course of business. Such activities inherently subject the Organization to the hazards of litigation. Habitat is not aware of any legal proceedings which could have a material adverse effect on the financial statements.

NOTE 17 - CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets recognized within the statement of activities for the years ended June 30 included:

		2022		2021
Materials and Supplies	$	30,460	$	45,185
ReStore Inventory		1,000,594		1,174,715
Total	$	1,031,054	$	1,219,900

All of the contributed nonfinancial assets shown above were utilized in Habitat's programs during the years ended June 30, 2022 and 2021. Donated materials and supplies were utilized in the construction of homes for sale, and donated inventory was utilized in the ReStore for subsequent sales to customers. Habitat's policy is to utilize contributed nonfinancial assets that are needed for with Habitat's programs and to monetize them otherwise. For the years ended June 30, 2022 and 2021, there were no donor-imposed restrictions associated with the contributed nonfinancial assets.

NOTE 17 - CONTRIBUTED NONFINANCIAL ASSETS (Continued)

Donated materials and supplies are recognized at their estimated fair value based on the costs paid for similar items used in the construction of homes. Donated inventory is recognized at estimated fair value based on the prices that the inventory will later be sold for in the ReStore.

NOTE 18 - PAYCHECK PROTECTION PROGRAM

In 2020, Habitat was granted a $367,445 loan under the Paycheck Protection Program “PPP” administered by a Small Business Administration (SBA) approved partner. The loan was uncollateralized and was fully guaranteed by the Federal government. The Organization initially recorded the loan as a refundable advance and subsequently recognized grant revenue in accordance with guidance for conditional contributions; that is, once the measurable performance or other barrier and right of return of the PPP loan no longer existed. The Organization recognized $344,267 as grant revenue for the year ended June 30, 2020, with the remaining $23,178 recorded as revenue for the year ended June 30, 2021. On November 5, 2020, Habitat received notice that the SBA had fully forgiven this loan.

On January 25, 2021, the Organization applied for a second PPP loan and received from its bank a loan in the amount of $384,253. Habitat recognized all of this amount as revenue for the year ended June 30, 2021. The loan is forgivable if the Organization meets certain criteria as established under the Program. On July 15, 2021 Habitat received notice that the Small Business Administration had fully forgiven its second loan.