



Habitat for Humanity of Central Arkansas, Inc.

**Consolidated Financial Statements
and
Supplementary Information
June 30, 2023 and 2022
(With Independent Auditor's Report Thereon)**

Habitat for Humanity of Central Arkansas, Inc.

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INDEPENDENT AUDITOR'S REPORT

The Board of Directors
Habitat for Humanity of Central Arkansas, Inc.
Little Rock, Arkansas

Opinion

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

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the financial position of the Organization as of June 30, 2023 and 2022, and the changes in 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 (U.S. GAAS). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated 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 related to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Emphasis of Matter

As discussed in Note 2 to the consolidated financial statements, in July 2022, the Organization adopted Financial Accounting Standards Board (FASB) Accounting Standards Update (ASU) No. 2016-02, *Leases*. Our opinion is not modified with respect to this matter.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated 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 the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated 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 for one year after the date that the consolidated financial statements are available to be issued.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated 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 U.S. 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 consolidated financial statements.

In performing an audit in accordance with U.S. GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audits.
- Identify and assess the risks of material misstatement of the consolidated 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 consolidated 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 consolidated 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 audits, significant audit findings, and certain internal control-related matters that we identified during the audits.

Supplementary Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The supplementary consolidating information is presented for purposes of additional analysis and is not a required part of the consolidated financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the consolidated financial statements. The information has been subjected to the auditing procedures applied in the audit of the consolidated financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the consolidated financial statements or to the

The Board of Directors
Habitat for Humanity of Central Arkansas, Inc.

Supplementary Information (Continued)

consolidated financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the consolidated financial statements as a whole.

Landmark PLC

Little Rock, Arkansas
December 13, 2023

Financial Statements

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Financial Position June 30, 2023 and 2022

	2023	2022
ASSETS		
Cash and cash equivalents	\$ 998,076	\$ 747,426
Restricted cash and cash equivalents	1,206,114	1,124,863
Accounts receivable	-	43,565
Grants receivable	50,000	49,264
Mortgages receivable, net	1,360,010	1,411,181
Homes under construction	356,393	217,168
Lease purchase agreements	83,208	88,595
Prepaid expenses and other assets	8,561	67,517
Property and equipment, net	1,301,998	1,342,424
Land held for development	151,040	151,040
Right of use assets - operating leases	69,192	-
Endowment assets	1,372,180	843,082
TOTAL ASSETS	\$ 6,956,772	\$ 6,086,125
 LIABILITIES AND NET ASSETS		
Liabilities		
Accounts payable	\$ 40,479	\$ 32,653
Accrued expenses and other liabilities	71,939	76,915
Operating lease liabilities	69,192	-
Refundable advances	-	38,076
Total Liabilities	181,610	147,644
 Net Assets		
Without donor restrictions	6,679,432	5,938,481
With donor restrictions	95,730	-
Total Net Assets	6,775,162	5,938,481
TOTAL LIABILITIES AND NET ASSETS	\$ 6,956,772	\$ 6,086,125

See accompanying notes to consolidated financial statements.

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Activities Years Ended June 30, 2023 and 2022

	2023	2022
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS		
Revenues, Support and Reclassifications Without Donor Restrictions		
Home sales	\$ 808,100	\$ 414,530
ReStore sales	1,286,523	1,268,963
Federal awards	553,632	47,916
Grant income	157,500	125,100
Contributions of cash and other financial assets	242,089	382,971
Contributions of nonfinancial assets	193,674	35,247
Mortgage discount amortization	334,035	357,480
Fundraisers	218,250	177,111
Loss on disposal of fixed assets	-	(7,601)
Investment income (loss)	130,205	(70,022)
Miscellaneous income	40,250	158,866
Total Revenues, Support and Reclassifications Without Donor Restrictions	3,964,258	2,890,561
Expenses		
Program services	2,732,563	1,717,233
Management and general	317,150	317,137
Fundraising	173,594	143,649
Total Expenses	3,223,307	2,178,019
Increase in Net Assets Without Donor Restrictions	740,951	712,542
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS		
Contributions	95,730	-
Increase in Net Assets With Donor Restrictions	95,730	-
INCREASE IN TOTAL NET ASSETS	836,681	712,542
NET ASSETS, BEGINNING OF YEAR	5,938,481	5,225,939
NET ASSETS, END OF YEAR	\$ 6,775,162	\$ 5,938,481

See accompanying notes to consolidated financial statements.

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statement of Functional Expenses Year Ended June 30, 2023

	<u>Program Services</u>		<u>Supporting Services</u>		<u>Total</u>
	<u>Program Services</u>	<u>ReStore Operations</u>	<u>Management and General</u>	<u>Fundraising</u>	
Salaries and benefits	\$ 131,063	\$ 484,821	\$ 220,557	\$ 110,999	\$ 947,440
Payroll taxes	14,041	31,151	13,902	7,190	66,284
Cost of homes sold	1,128,184	-	-	-	1,128,184
Resale merchandise	-	111,095	-	-	111,095
Taxes and licenses	925	-	103	-	1,028
Depreciation	3,372	60,683	3,371	-	67,426
Insurance	9,425	26,401	9,425	-	45,251
Mortgage discounts	499,226	-	-	-	499,226
Supplies	2,081	13,383	6,245	-	21,709
Professional fees	7,725	-	16,451	-	24,176
Utilities	-	41,013	-	-	41,013
Computer and internet	8,466	12,910	25,400	-	46,776
Advertising	-	7,633	-	26,765	34,398
Automobile and fuel	-	43,031	-	-	43,031
Repairs and maintenance	19,301	24,463	-	-	43,764
Dues and subscriptions	15,000	-	3,377	-	18,377
Conferences	3,384	-	3,667	-	7,051
Tithes	15,500	-	-	-	15,500
Other	1,221	17,065	14,652	28,640	61,578
	<u>\$ 1,858,914</u>	<u>\$ 873,649</u>	<u>\$ 317,150</u>	<u>\$ 173,594</u>	<u>\$ 3,223,307</u>

See accompanying notes to consolidated financial statements.

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statement of Functional Expenses Year Ended June 30, 2022

	Program Services		Supporting Services		Total
	Program Services	ReStore Operations	Management and General	Fundraising	
Salaries and benefits	\$ 135,067	\$ 408,946	\$ 230,048	\$ 106,316	\$ 880,377
Payroll taxes	15,184	27,198	16,234	7,682	66,298
Cost of homes sold	484,025	-	-	-	484,025
Resale merchandise	-	93,117	-	-	93,117
Taxes and licenses	1,092	14,466	121	-	15,679
Depreciation	3,307	59,540	3,308	-	66,155
Insurance	7,473	19,352	7,473	-	34,298
Mortgage discounts	235,559	-	-	-	235,559
Supplies	1,646	13,585	4,940	-	20,171
Professional fees	2,460	-	20,276	-	22,736
Utilities	-	48,898	-	-	48,898
Computer and internet	4,684	9,411	14,054	-	28,149
Advertising	-	93	-	11,565	11,658
Automobile and fuel	708	42,782	-	-	43,490
Repairs and maintenance	13,528	24,214	-	-	37,742
Dues and subscriptions	15,000	-	2,391	-	17,391
Conferences	8,000	-	3,584	-	11,584
Tithes	10,000	-	-	-	10,000
Other	2,381	15,517	14,708	18,086	50,692
	<u>\$ 940,114</u>	<u>\$ 777,119</u>	<u>\$ 317,137</u>	<u>\$ 143,649</u>	<u>\$ 2,178,019</u>

See accompanying notes to consolidated financial statements.

Habitat for Humanity of Central Arkansas, Inc.

Consolidated Statements of Cash Flows Years Ended June 30, 2023 and 2022

	2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Increase in Total Net Assets	\$ 836,681	\$ 712,542
Adjustments to Reconcile Increase in Total Net Assets to Net Cash Provided by Operating Activities		
Depreciation	67,426	66,155
Change in value of endowment fund	(529,098)	(708,974)
Mortgage loan discount amortization	(334,035)	(357,480)
Mortgage discounts	499,226	235,559
New mortgage loans issued	(670,413)	(235,066)
Principal payments received on mortgage loans	556,393	618,826
Principal payments received on lease purchase agreements	5,387	53,319
Loss on sale of property	-	7,601
Changes in operating assets and liabilities:		
Homes under construction	(139,225)	(96,033)
Prepays and other assets	58,956	10,520
Grants receivable	(736)	(32,964)
Accounts receivable	43,565	(43,565)
Accounts payable	7,826	8,567
Accrued expenses and other liabilities	(4,976)	6,732
Refundable advances	(38,076)	(35,355)
Net Cash Provided by Operating Activities	358,901	210,384
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of property and equipment	(27,000)	(38,815)
Net Cash Used by Investing Activities	(27,000)	(38,815)
NET INCREASE IN CASH AND CASH EQUIVALENTS	331,901	171,569
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	1,872,289	1,700,720
CASH AND CASH EQUIVALENTS AT END OF YEAR	\$ 2,204,190	\$ 1,872,289
SUPPLEMENTAL DISCLOSURES		
Cash and cash equivalents	\$ 998,076	\$ 747,426
Restricted cash and cash equivalents	1,206,114	1,124,863
	\$ 2,204,190	\$ 1,872,289

See accompanying notes to consolidated financial statements.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 1: NATURE OF ACTIVITIES

Habitat for Humanity of Central Arkansas, Inc. (“HHCA”) was incorporated on July 11, 1989. HHCA is an affiliate of Habitat for Humanity International, Inc. (“HFHI”), a nondenominational Christian non-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 HFHI assists with information resources, training, publication, prayer support and in other ways, HHCA is primarily and directly responsible for its own operations.

HHCA also operates a ReStore with the purpose of providing funding for the Organization’s mission. Individuals donate household items and other goods for resale. The proceeds from the resale benefit HHCA.

Additionally, in an effort to increase the supply of affordable housing units in Pulaski County, HHCA established Pulaski County Neighborhood Alliance for Habitat (“PCNAFH”), which is considered a community housing development organization exempt from income tax under IRS Section 501(c)(3). The primary purpose of the PCNAFH is to assist with obtaining additional funding that is specifically reserved for community housing development organizations.

These consolidated financial statements include the balances and transactions of HHCA and PCNAFH (collectively, “the Organization”). All intercompany balances and transactions have been eliminated in consolidation.

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The consolidated financial statements have been prepared using the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (U.S. GAAP).

Basis of Presentation

The Organization reports information regarding its financial position and activities according to the following two classes of net assets:

Net Assets without Donor Restrictions – Net assets that are not subject to or are no longer subject to donor-imposed restrictions.

Net Assets with Donor Restrictions – Net assets whose use is limited by donor-imposed time and/or purpose restrictions.

Cash and Cash Equivalents

Cash and cash equivalents include all cash on hand, demand deposit accounts held at financial institutions, money market funds held with investment banking firms and liquid investments with original maturities of three months or less. Restricted cash consists of cash deposited specifically for the construction of future homes.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Cash and Cash Equivalents (Continued)

At times during the years ended June 30, 2023 and 2022, cash, cash equivalents and certificates of deposit balances exceeded amounts insured by the Federal Deposit Insurance Corporation (FDIC) or the Securities Investor Protection Corporation (SIPC) and were not collateralized. In the event of an institutional failure, the excess of cash balances over FDIC or SIPC insurance limits may not be recoverable. For the years ended June 30, 2023 and 2022, the Organization's balances maintained at multiple financial institutions totaled \$2,574,814 and \$1,976,006, respectively. Of these balances, \$1,443,892 and \$1,106,734 were not insured or collateralized at June 30, 2023 and 2022.

ReStore Inventory

The Organization accepts non-cash donations for resale through the operation of the ReStore facility. Management has been unable to determine a reasonable estimate for the values of these donations and, as such, the ReStore inventory is not carried on the consolidated statements of financial position. Revenue is recognized at the time of sale. Management believes the effect is immaterial to the consolidated financial statements as a whole.

Contributions and Grants Receivable

Contributions and grants receivable are recorded at the amounts to be received by the grantor, as agreed upon in each grant agreement, where applicable. Once a grant has been received, the receivable is reduced by the amount collected.

Mortgages Receivable

Mortgages receivables consist of non-interest-bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. Every effort is made to assist homeowners who have become delinquent in their mortgage payments. However, foreclosure proceedings may be initiated and/or the Organization may accept the deed in lieu of foreclosure where the homeowner mortgage payments are deemed seriously delinquent. Properties acquired through foreclosure or acceptance of a deed in lieu of foreclosure may be sold directly on the open market.

Mortgage receivables entered into at rates substantially below market rates are discounted to net present value using rates provided by HFHI. The discounts are charged directly to the operations at the inception of the mortgage and amortized over the life of the contract. Discount amortization is reported as amortization of note receivable discount in the period amortized.

The Organization has not established an allowance for doubtful accounts as it 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.

Homes Under Construction

Costs incurred in conjunction with home construction are recorded as homes under construction on the consolidated statements of financial position. When a home is sold, the associated cost is removed from homes under construction and classified to cost of homes sold in the consolidated statements of functional expenses. The specific identification method is used in determining the cost of a home sold.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Lease Purchase Agreements

Lease purchase agreements are recorded at the stated lease value on the date of inception.

Property and Equipment

Property and equipment are reported at historical cost or, if donated, at the approximate fair value at the date of donation. It is the policy of the Organization to capitalize property and equipment with an economic life greater than one year with cost in excess of \$5,000.

Major renewals and betterments are capitalized, while normal maintenance and repairs are expensed in the period incurred. Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets, which range from three to forty years.

The Organization records impairment to its property and equipment if it becomes probable that the carrying value of the assets will not be fully recovered over their estimated lives. Impairments are recorded to reduce the carrying value of the assets to their estimated fair values, determined by the Organization based on facts and circumstances in existence at the time of the determination, estimates of probable future economic conditions and other information. No impairments were required during the years ended June 30, 2023 and 2022.

Land Held for Development

Land held for development includes the cost of land and improvements to land or, if donated, the approximate fair value of the land at the date of the donation, held for future construction of homes.

Refundable Advances

Refundable advances relate to cash received directly from government agencies to assist with the construction of homes. These amounts will be recognized as grant revenue when the home is sold.

Revenue Recognition

Grants and contributions, including unconditional promises to give, are recognized as support in the period received or when the Organization becomes aware that a promise to give has been made, whichever occurs first.

Contributions that are restricted by the donor are reported as increases in net assets without donor restrictions if the restriction expires in the reporting period in which the support is recognized. All other amounts received that are designated for future periods or restricted by the donor for specific purposes are reported as net assets with donor 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 consolidated statements of activities as net assets released from restrictions.

ReStore sales are recognized as revenue at the time merchandise is transferred to the customer.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue Recognition (Continued)

The Organization receives funds for special events with the intent to increase awareness of the Organization and its programs. A portion of fundraising event revenue is intended to cover the cost of the meal and entertainment provided, although the majority of the revenue consists of donor sponsorships and contributions. Special event revenue is recognized as income as events are held.

Homes are sold to qualified buyers at approximately the cost to build the home. Mortgages are accepted as payment for the homes sold. Any grant funds received to further subsidize the homeowners' purchase price is reflected as grants and awards at the time of sale. There were 6 and 3 homes sold with non-interest-bearing mortgages during the years ended June 30, 2023 and 2022, respectively.

Donated Services

Donated services are recognized as contributions only if the services (a) create or enhance nonfinancial assets or (b) require specialized skills, are performed by people with those skills and would otherwise be purchased by the Organization. Although a substantial number of uncompensated volunteers have donated significant amounts of their time to the Organization's program services and fundraising activities, the value of these donated services has not been recognized in the consolidated financial statements as the recognition criteria has not been met.

Advertising Expenses

The Organization uses advertising to promote its programs. Advertising costs are expensed as incurred. For the years ended June 30, 2023 and 2022, advertising expenses were approximately \$34,000 and \$12,000, respectively.

Program Services

Program services include construction, ReStore operations, discount on mortgage originations, support of families and education of the general public. Program services also includes the cost of homes sold to homeowners.

Functional Expenses

Expenses are allocated on a functional basis among various program and supporting services. Expenses that can be identified with a specific program or supporting service are recorded directly to the related program or supporting service according to their natural expenditure classification. The Organization allocates these expenses accordingly using time charged to employees and other various methods.

Income Taxes

HHCA and PCNAFH are tax-exempt organizations under Section 501(c)(3) of the Internal Revenue Code and are not private foundations.

Accounting standards require the Organization to evaluate tax positions and recognize a tax liability (or asset) if the Organization has taken an uncertain position that more likely than not would not be sustained upon examination by the Internal Revenue Service. The Organization has analyzed the tax

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 2: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income Taxes (Continued)

positions taken and has concluded that as of June 30, 2023 and 2022, there were no uncertain positions taken or expected to be taken that would require the recognition of a liability (or asset) or disclosure in the consolidated financial statements. The Organization may be subject to audit by the Internal Revenue Service; however, there are currently no audits for any tax periods in progress.

Use of Estimates

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

Leases

The Organization records a right-of-use asset and lease liability for significant leases with terms greater than 12 months.

Recently Adopted Accounting Standards

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update (ASU) No. 2016-02, *Leases*, requiring an entity to recognize assets and liabilities for leases with terms greater than twelve months. The recognition measurement and presentation of expenses and cash flows arising from a lease by a lessee primarily will depend on its classification as a finance or operating lease. This amends current guidance that requires only finance leases to be recognized on the lessee balance sheet. This new lease standards also requires additional disclosures on the amount, timing and uncertainty of cash flows arising from leases. The Organization adopted FASB ASU No. 2016-02 on July 1, 2022, using the optional new transition alternative method without restating prior periods. For leases that commenced before the effective date of ASU 2016-02, the Organization elected the permitted practical expedient to not reassess the following: (a) whether any expired or existing contracts contain leases; (b) the lease classification for any expired or existing leases; and (c) initial direct costs for existing leases. The impact of the adoption on the financial statements resulted in an increase in the Organization's assets to record a right-of-use asset and an increase in the Organization's liabilities to record a lease obligation of \$69,192 representing the present value of the remaining lease payments for an operating lease. The adoption did not have a material impact on the Organization's net assets or its changes in net assets.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 3: LIQUIDITY AND AVAILABILITY OF FINANCIAL ASSETS

The Organization monitors its liquidity so that it is able to meet its operating needs and other contractual commitments while maximizing the investment of its excess operating cash. The Organization has the following financial assets that could readily be made available within one year of the consolidated statements of financial position to fund expenses without limitations:

	<u>2023</u>	<u>2022</u>
Assets:		
Cash and cash equivalents	\$ 2,204,190	\$ 1,872,289
Grants receivable	50,000	49,264
Accounts receivable	-	43,565
Endowment assets	<u>1,372,180</u>	<u>843,082</u>
Total financial assets	3,626,370	2,808,200
Less:		
Cash restricted for future home construction	(1,206,114)	(1,124,863)
Restricted portion of endowment assets	<u>(65,899)</u>	<u>(65,370)</u>
Financial assets available to meet cash needs for general expenditures within one year	<u>\$ 2,354,357</u>	<u>\$ 1,617,967</u>

NOTE 4: ENDOWMENTS

During the year ended June 30, 2010, the Organization entered into an agreement with the Arkansas Community Foundation (ACF) to create an endowment fund to aid and assist the Organization in carrying out its charitable purpose. The Organization irrevocably invested \$10,000 from an internal designation by the Board of Directors (the Board). Contributions and income of the endowment fund are reported as increases to net assets without donor restrictions. The Organization attempts to ensure preservation of capital and to provide a satisfactory market rate of return in order to provide for current and future needs of the Organization. The income earned thereon is to be utilized for operating expenses incurred by the Organization. As permitted by the spending rate policy adopted by the Board and ACF, generally 4% of the average balance of the endowment fund in excess of \$10,000 is available for distribution on an annual basis. Distributions of approximately \$600 were made during the year ended June 30, 2023. There were no distributions made during the year ended June 30, 2022.

During the year ended June 30, 2021, the Organization entered into an agreement with ACF to create a quasi-endowment fund to aid and assist the Organization in carrying out its charitable purpose. The Organization irrevocably invested \$100,000 from an internal designation by the Board. Contributions and income of the quasi-endowment fund are reported as increases to net assets without donor restrictions. The Organization attempts to ensure preservation of capital and to provide a satisfactory market rate of return in order to provide for current and future needs of the Organization. The income earned thereon is to be utilized for operating expenses incurred by the Organization. As permitted by

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 4: ENDOWMENTS (Continued)

the spending rate policy adopted by the Board and ACF, any funds in excess of \$50,000 are available for distribution within the first three years of the formation of the quasi-endowment. After year three, all remaining funds in the quasi-endowment fund become available for distribution. There were no distributions made during the years ended June 30, 2023 and 2022.

The Organization invests the assets of the endowment fund and the quasi-endowment fund in a pooled fund managed by ACF. The Organization's interest in the pooled fund is evidenced by a unit. The value of a unit is calculated based on the fair value of the underlying assets, adjusted for the effects of such transactions as administrative fees and investment income that has not been reinvested in the underlying assets.

Changes in board designated endowment net assets as of June 30, are as follows:

	<u>2023</u>	<u>2022</u>
Endowment funds held at the Arkansas Community Foundation, beginning of year	\$ 15,370	\$ 17,211
Distribution of assets	(586)	-
Investment return, net	<u>1,115</u>	<u>(1,841)</u>
Endowment funds held at the Arkansas Community Foundation, end of year	<u>\$ 15,899</u>	<u>\$ 15,370</u>

Changes in board designated quasi-endowment net assets as of June 30, are as follows:

	<u>2023</u>	<u>2022</u>
Quasi-endowment funds held at the Arkansas Community Foundation, beginning of year	\$ 827,712	\$ 116,897
Contribution of assets	450,000	790,827
Investment return, net	<u>78,569</u>	<u>(80,012)</u>
Quasi-endowment funds held at the Arkansas Community Foundation, end of year	<u>\$ 1,356,281</u>	<u>\$ 827,712</u>

NOTE 5: MORTGAGES RECEIVABLE

Mortgages receivable consists of non-interest-bearing notes from individuals who occupy houses constructed by the Organization. These notes are payable in monthly installments and are collateralized by a mortgage on the real estate. The mortgages receivable have original maturities between 10 and 30 years.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 5: MORTGAGES RECEIVABLE (Continued)

For some borrowers, the Organization secures a second mortgage at the time of sale. These second mortgages reflect the approximate difference between the fair market values of the properties and the sales prices. These mortgages are forgiven ratably over five-to-thirty-year periods so long as the purchaser remains with the property. If the property is sold by the original purchaser or foreclosed, the remaining balance on the second mortgages must be repaid to the mortgage holder along with the balance due on the first mortgage. No contingent receivable or offsetting deferred revenue are recorded in these consolidated financial statements, but the practice is being disclosed for informational purposes. The amount that may be collected is undetermined.

Certain homes sold by the Organization were constructed using federal funds passed through the Arkansas Development Finance Authority (ADFA). Once the home is sold, a portion of the mortgage is assigned by the Organization to ADFA; however, the Organization services the mortgage through a third-party service provider. Principal payments collected on behalf of ADFA are remitted quarterly. At June 30, 2023 and 2022, amounts due to ADFA totaled approximately \$4,100 and \$3,700, respectively, and are included in accrued expenses and other liabilities on the consolidated statements of financial position.

Mortgages receivable consists of the following:

	<u>June 30,</u> <u>2023</u>	<u>June 30,</u> <u>2022</u>	<u>July 1,</u> <u>2021</u>
Non-interest bearing loans at face value	\$ 5,287,624	\$ 5,169,524	\$ 5,573,689
Less: Unamortized discount based on imputed interest at rates ranging from 7.16% to 8.48%	<u>(3,927,614)</u>	<u>(3,758,343)</u>	<u>(3,900,669)</u>
Mortgages receivable, net of discounts	<u>\$ 1,360,010</u>	<u>\$ 1,411,181</u>	<u>\$ 1,673,020</u>

Contractual maturities of mortgages receivable on June 30, 2023 are as follows:

2024	\$ 268,961
2025	268,961
2026	268,961
2027	268,961
2028	268,961
Thereafter	<u>3,942,819</u>
Total	<u>\$ 5,287,624</u>

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 5: MORTGAGES RECEIVABLE (Continued)

During the year ended June 30, 2013, the Organization sold mortgages receivable with recourse to ADFA. The Organization has guaranteed payment of the mortgage loans and in the event of any loan default, the Organization will replace the non-performing loan with a performing loan or will buy back the non-performing loan. As of June 30, 2023 and 2022, the uncollected balances remaining on the mortgages totaled approximately \$124,000 and \$135,000, respectively.

NOTE 6: CARES ACT FUNDING

The Coronavirus Aid, Relief and Economic Security (CARES) Act was passed by Congress and signed into law in March 2020, to preserve jobs and provide fast and direct economic assistance to workers, families and small businesses.

The Employee Retention Credit (ERC) is a form of assistance authorized by the CARES Act. The ERC is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees during a specific time period. During the year ended June 30, 2022, the Organization recognized ERC in the amount of approximately \$159,000, and is included in miscellaneous income on the consolidated statements of activities. The ERC is provided to eligible employers by reducing employment tax deposits they are otherwise required to make.

If the employer's employment tax deposits are not sufficient to cover the credit, the employer may get an advance payment from the Internal Revenue Service. Management anticipates full recovery of these amounts (as identified under the credit and related implementation guidance), therefore, the transactions are accounted for as CARES Act funding revenue. Amounts not yet received are included in accounts receivable on the consolidated statements of financial position.

NOTE 7: RELATED PARTY TRANSACTIONS

For the years ended June 30, 2023 and 2022, donations from the Board of Directors and the Organization's employees totaled approximately \$12,000 and \$29,500, respectively.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 8: PROPERTY AND EQUIPMENT, NET

A summary of property and equipment at June 30, is as follows:

	<u>2023</u>	<u>2022</u>
Buildings and improvements	\$ 2,332,208	\$ 2,305,208
Furniture, fixtures and equipment	12,439	12,439
Vehicles	22,500	22,500
	<u>2,367,147</u>	<u>2,340,147</u>
Less accumulated depreciation	<u>(1,065,149)</u>	<u>(997,723)</u>
Property and equipment, net	<u>\$ 1,301,998</u>	<u>\$ 1,342,424</u>

NOTE 9: SIMPLE IRA PLAN

During the year ended June 30, 2014, the Organization established a Simple IRA plan (the Plan). Full-time employees are eligible to participate in the Plan after one year of employment. The Organization matches up to 3% of eligible employees' elective deferrals. For the years ended June 30, 2023 and 2022, the total expense related to the matching was approximately \$15,000 and \$14,000, respectively.

NOTE 10: CONTRIBUTED NONFINANCIAL ASSETS

Contributed nonfinancial assets recognized within the statements of activities at June 30 include the following:

	<u>2023</u>	<u>2022</u>
Home	\$ 159,000	\$ -
Land	-	13,000
Property and equipment	26,098	14,867
Supplies	5,076	4,854
Professional services	3,500	2,526
	<u>\$ 193,674</u>	<u>\$ 35,247</u>

During the years ended June 30, 2023 and 2022, the Organization received contributions of a home, land, property and equipment, supplies and professional services from several vendors for the construction of affordable housing for those in need. The Organization estimates the fair value of the contributed land based on the appraised value at the time of donation. The fair values of contributed property and equipment and supplies is based on current values for similar items. The fair value of professional services provided is based on current rates for similar services.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 11: TRUCK LEASES

The Organization has operating leases for trucks. For these leases, the Organization records a right-of-use asset which represents the Organization's right to use the underlying asset during the lease term and a lease liability that represents the Organization's obligation to make payments arising from the lease. Right-of-use assets and liabilities are recognized at the commencement date based on the net present value of fixed payments over the lease term. As a practical expedient, the Organization uses a risk-free discount rate for a period comparable with that of the lease term in determining the present value of lease payments. Operating fixed lease expense is recognized on a straight-line basis over the lease term. All of the Organization's leases include fixed rental payments. Operating expenses for the leasing activity of the Organization for the year ending June 30, 2023 was approximately \$27,000 and is included in automobile and fuel on the statement of functional expense.

The aggregate future lease payments for operating leases as of June 30, 2023, are as follows:

2024	\$	27,252
2025		27,252
2026		<u>15,898</u>
Total lease payments		70,402
Less: interest		<u>(1,210)</u>
Present value of lease liabilities	\$	<u><u>69,192</u></u>

The Organization's weighted average remaining lease term and discount rate for the Organization's operating leases were 3 years and 1.39%, respectively, as of June 30, 2023.

NOTE 12: HOME LEASE AGREEMENTS

The Organization leases some of its properties from time-to-time. Although the Organization is a for-sale housing program, certain situations may arise where a property may be temporarily leased before it is sold. Most situations involve a lease-to-own or option-to-purchase agreement, but others may be only a rental situation for a fixed or renewable term.

During the years ended June 30, 2023 and 2022, the Organization was receiving lease payments on two and three homes, respectively, of which, one was sold during the year ended June 30, 2022.

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS

Net assets with donor restrictions consist of contributions received with donor-imposed restrictions limiting the Organization's use of contributed assets to a specific purpose. The amounts are transferred to net assets without donor restrictions in the period the donor-stipulated purpose has been fulfilled by the Organization.

Habitat for Humanity of Central Arkansas, Inc.

Notes to Consolidated Financial Statements June 30, 2023 and 2022

NOTE 13: NET ASSETS WITH DONOR RESTRICTIONS (Continued)

Net assets with donor restrictions are available for the following purpose at June 30:

	<u>2023</u>	<u>2022</u>
Net Assets Restricted for a Specific Purpose:		
Apostles build	\$ 95,730	\$ -

NOTE 14: SUBSEQUENT EVENTS

Management has evaluated subsequent events through December 13, 2023, the date the financial statements were available to be issued.

Supplementary Information

Habitat for Humanity of Central Arkansas, Inc.

Consolidating Statement of Financial Position June 30, 2023

	Habitat for Humanity of Central Arkansas	Pulaski County Neighborhood Alliance for Habitat	Eliminations	Consolidated
ASSETS				
Cash and cash equivalents	\$ 925,876	\$ 72,200	\$ -	\$ 998,076
Restricted cash and cash equivalents	1,206,114	-	-	1,206,114
Grants receivable	50,000	-	-	50,000
Mortgages receivable, net	1,034,113	325,897	-	1,360,010
Homes under construction	331,580	24,813	-	356,393
Lease purchase agreements	83,208	-	-	83,208
Prepaid expenses	8,561	-	-	8,561
Intercompany receivable	-	1,666	(1,666)	-
Property and equipment, net	1,301,998	-	-	1,301,998
Land held for development	151,040	-	-	151,040
Right of use assets - operating leases	69,192	-	-	69,192
Endowment funds	1,372,180	-	-	1,372,180
TOTAL ASSETS	\$ 6,533,862	\$ 424,576	\$ (1,666)	\$ 6,956,772
LIABILITIES AND NET ASSETS				
Liabilities				
Accounts payable	\$ 37,515	\$ 2,964	\$ -	\$ 40,479
Accrued liabilities	71,939	-	-	71,939
Operating lease liabilities	69,192	-	-	69,192
Intercompany payable	1,666	-	(1,666)	-
Total Liabilities	180,312	2,964	(1,666)	181,610
Net Assets				
Without donor restrictions	6,257,820	421,612	-	6,679,432
With donor restrictions	95,730	-	-	95,730
Total Net Assets	6,353,550	421,612	-	6,775,162
TOTAL LIABILITIES AND NET ASSETS	\$ 6,533,862	\$ 424,576	\$ (1,666)	\$ 6,956,772

See Independent Auditor's Report.

Habitat for Humanity of Central Arkansas, Inc.

Consolidating Statement of Activities Year Ended June 30, 2023

	Habitat for Humanity of Central Arkansas	Pulaski County Neighborhood Alliance for Habitat	Eliminations	Consolidated
CHANGES IN NET ASSETS WITHOUT DONOR RESTRICTIONS				
Revenues, Support and Reclassifications Without Donor Restrictions				
Home sales	\$ 516,500	\$ 291,600	\$ -	\$ 808,100
ReStore sales	1,286,523	-	-	1,286,523
Federal awards	121,432	432,200	-	553,632
Grant income	157,500	-	-	157,500
Contributions of cash and other financial assets	239,173	2,916	-	242,089
Contributions of nonfinancial assets	193,674	-	-	193,674
Mortgage discount amortization	314,615	19,420	-	334,035
Fundraisers	218,250	-	-	218,250
Interest income	129,375	830	-	130,205
Miscellaneous income	40,250	-	-	40,250
Total Revenues, Support and Reclassifications Without Donor Restrictions	3,217,292	746,966	-	3,964,258
Expenses				
Program services	2,112,265	620,298	-	2,732,563
Management and general	314,741	2,409	-	317,150
Fundraising	173,594	-	-	173,594
Total Expenses	2,600,600	622,707	-	3,223,307
Increase in Net Assets Without Donor Restrictions	616,692	124,259	-	740,951
CHANGES IN NET ASSETS WITH DONOR RESTRICTIONS				
Contributions	95,730	-	-	95,730
Increase in Net Assets With Donor Restrictions	95,730	-	-	95,730
INCREASE IN TOTAL NET ASSETS	712,422	124,259	-	836,681
NET ASSETS, BEGINNING OF YEAR	5,641,128	297,353	-	5,938,481
NET ASSETS, END OF YEAR	\$ 6,353,550	\$ 421,612	\$ -	\$ 6,775,162

See Independent Auditor's Report.

Habitat for Humanity of Central Arkansas, Inc.

Consolidating Statement of Functional Activities Year Ended June 30, 2023

	Program Services			Management and General			Fundraising		
	Habitat for Humanity of Central Arkansas	Pulaski County Neighborhood Alliance for Habitat	Consolidated	Habitat for Humanity of Central Arkansas	Pulaski County Neighborhood Alliance for Habitat	Consolidated	Habitat for Humanity of Central Arkansas	Pulaski County Neighborhood Alliance for Habitat	Consolidated
Salaries and benefits	\$ 597,808	\$ 18,076	\$ 615,884	\$ 218,548	\$ 2,009	\$ 220,557	\$ 110,999	\$ -	\$ 110,999
Payroll taxes	43,849	1,343	45,192	13,753	149	13,902	7,190	-	7,190
Cost of homes sold	708,490	419,694	1,128,184	-	-	-	-	-	-
Resale merchandise	111,095	-	111,095	-	-	-	-	-	-
Taxes and licenses	-	925	925	-	103	103	-	-	-
Depreciation	64,055	-	64,055	3,371	-	3,371	-	-	-
Insurance	35,826	-	35,826	9,425	-	9,425	-	-	-
Mortgage discounts	318,966	180,260	499,226	-	-	-	-	-	-
Supplies	15,464	-	15,464	6,245	-	6,245	-	-	-
Professional fees	7,725	-	7,725	16,451	-	16,451	-	-	-
Utilities	41,013	-	41,013	-	-	-	-	-	-
Computer and internet	21,376	-	21,376	25,400	-	25,400	-	-	-
Advertising	7,633	-	7,633	-	-	-	26,765	-	26,765
Automobile and fuel	43,031	-	43,031	-	-	-	-	-	-
Repairs and maintenance	43,764	-	43,764	-	-	-	-	-	-
Dues and subscriptions	15,000	-	15,000	3,377	-	3,377	-	-	-
Conferences	3,384	-	3,384	3,667	-	3,667	-	-	-
Tithes	15,500	-	15,500	-	-	-	-	-	-
Other	18,286	-	18,286	14,504	148	14,652	28,640	-	28,640
	<u>\$ 2,112,265</u>	<u>\$ 620,298</u>	<u>\$ 2,732,563</u>	<u>\$ 314,741</u>	<u>\$ 2,409</u>	<u>\$ 317,150</u>	<u>\$ 173,594</u>	<u>\$ -</u>	<u>\$ 173,594</u>

See Independent Auditor's Report.