Greater Birmingham Habitat for Humanity, Inc.

Consolidated Financial Report
June 30, 2022

Contents

Independent Auditor's Report

Board of Directors
Greater Birmingham Habitat for Humanity, Inc.

Opinion
We have audited the consolidated financial statements of Greater Birmingham Habitat for Humanity, Inc., its affiliated entity and subsidiary (the Organization), which comprise the consolidated statements of financial position as of June 30, 2022 and 2021, 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 (collectively, the financial statements).

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

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

Responsibilities of Management for the Financial Statements
Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Organization's ability to continue as a going concern within one year after the date that the financial statements are issued or available to be issued.

Auditor's Responsibilities for the Audit of the Financial Statements
Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

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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.

Haley & Woods, LLP

October 25, 2022

Greater Birmingham Habitat for Humanity, Inc.

Consolidated Statements of Financial Position
June 30, 2022 and 2021

	2022	2021
Assets		
Cash and cash equivalents	**$ 8,190,523**	$ 7,126,905
Restricted cash	**31,912**	25,849
Grants and other receivables	**1,120,180**	859,933
Mortgage loans receivable, net	**15,502,120**	15,792,976
Inventory	**779,425**	822,226
Construction in progress	**1,336,479**	2,261,688
Homes available for sale	**2,135,849**	2,190,367
Land held for development	**2,336,675**	1,043,792
Property and equipment, net	**4,008,209**	3,720,664
Investment in partnership	**1,153,714**	1,165,788
Intangible assets	**88,010**	109,395
Other assets	**152,485**	539,006
Total assets	**$ 36,835,581**	$ 35,658,589
Liabilities and Net Assets		
Liabilities:		
Accounts payable	**$ 338,311**	$ 255,193
Accrued expenses	**270,387**	249,149
Refundable advance - Paycheck Protection Program	**-**	267,440
Notes payable	**2,274,413**	2,364,914
Total liabilities	**2,883,111**	3,136,696
Net assets:		
Without donor restrictions	**33,846,576**	32,370,459
With donor restrictions	**105,894**	151,434
Total net assets	**33,952,470**	32,521,893
Total liabilities and net assets	**$ 36,835,581**	$ 35,658,589

See notes to consolidated financial statements.

Greater Birmingham Habitat for Humanity, Inc.

Consolidated Statements of Activities
Years Ended June 30, 2022 and 2021

	2022	2021
Changes in net assets without donor restrictions:		
Support and revenue:		
Sales of homes	$ 2,172,389	$ 2,150,836
Outlet store sales	2,092,877	2,187,350
Repair and rehabilitation grant	2,021,171	1,396,794
Gain on sale of homes and loans sold and paid off early	990,763	665,257
Mortgage loan discount amortization	971,106	1,134,930
Grant revenue	776,197	731,945
Rental income	625,204	590,094
Contributions	598,851	492,962
In-kind contributions – outlet store	447,485	525,941
Paycheck protection program grant	267,440	283,000
Fee income	243,663	252,249
In-kind contributions	163,974	25,703
Other	2,869	14,473
	11,373,989	10,451,534
Net assets released from restrictions	505,950	454,779
	11,879,939	10,906,313
Expenses:		
Program services	9,692,983	7,970,409
Supporting services	710,839	753,445
	10,403,822	8,723,854
Change in net assets without donor restrictions	1,476,117	2,182,459
Changes in net assets with donor restrictions:		
Support:		
Contributions and grants	460,410	467,600
Net assets released from restrictions	(505,950)	(454,779)
Change in net assets with donor restrictions	(45,540)	12,821
Change in net assets	1,430,577	2,195,280
Net assets beginning of year	32,521,893	30,326,613
Net assets end of year	$ 33,952,470	$ 32,521,893

See notes to consolidated financial statements.

Greater Birmingham Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2022

	Program Services								Supporting Services			Total
	Construction	Restore	Rehab	Rental	Loan Servicing	Family Services	Other	Total	Management and General	Fundraising	Total	
Cost of homes sold	$ 3,928,495	$ 325	$ 1,889,880	$ 86,373	$ -	$ 59	$ -	$ 5,905,132	$ 4,488	$ 550	$ 5,038	$ 5,910,170
Salaries, benefits and payroll taxes	400,782	348,121	137,427	37,965	42,705	105,849	-	1,072,849	261,389	122,909	384,298	1,457,147
Costs of purchased inventory sold	-	1,045,273	-	-	-	-	-	1,045,273	-	-	-	1,045,273
Fair value of donated items sold	-	703,861	-	-	-	-	-	703,861	-	-	-	703,861
Advertising and events	-	-	-	-	-	-	-	-	-	37,796	37,796	37,796
Depreciation	-	55,340	-	122,530	-	-	18,730	196,600	26,133	-	26,133	222,733
Insurance	69,120	58,611	8,823	47,952	1,431	3,380	34,362	223,679	15,676	3,825	19,501	243,180
Interest	-	-	-	-	-	-	30,637	30,637	-	-	-	30,637
Loan servicing	-	-	-	-	103,932	-	-	103,932	516	-	516	104,448
Other expenses	43,665	16,248	-	6,736	(5)	2,166	5,462	74,272	36,704	13,454	50,158	124,430
Postage and shipping	-	1,778	9	17	-	-	-	1,804	4,042	9	4,051	5,855
Printing and publications	-	695	-	-	-	-	-	695	1,069	-	1,069	1,764
Professional fees	-	30,942	177	19	66,877	-	-	98,015	64,969	1,277	66,246	164,261
Repairs and maintenance	900	3,282	-	-	-	-	-	4,182	1,450	-	1,450	5,632
Supplies and equipment	2,424	14,242	-	38	-	60	-	16,764	8,610	1,509	10,119	26,883
Telephone and technology	375	4,158	-	-	-	475	-	5,008	13,483	300	13,783	18,791
Tithe to Habitat for Humanity International, Inc.	132,500	-	-	-	-	-	-	132,500	5,000	-	5,000	137,500
Travel	25	7,692	91	19	-	112	-	7,939	6,381	1,273	7,654	15,593
Utilities	10,810	59,023	-	8	-	-	-	69,841	78,027	-	78,027	147,868
	$ 4,589,096	$ 2,349,591	$ 2,036,407	$ 301,657	$ 214,940	$ 112,101	$ 89,191	$ 9,692,983	$ 527,937	$ 182,902	$ 710,839	$ 10,403,822

See notes to consolidated financial statements.

Greater Birmingham Habitat for Humanity, Inc.

Consolidated Statement of Functional Expenses
Year Ended June 30, 2021

	Program Services								Supporting Services			Total
	Construction	Restore	Rehab	Rental	Loan Servicing	Family Services	Other	Total	Management and General	Fundraising	Total	
Cost of homes sold	$ 3,122,298	$ 500	$ 1,207,614	$ 8,877	$ 3,907	$ -	$ 121,614	$ 4,464,810	$ 12,380	$ -	$ 12,380	$ 4,477,190
Salaries, benefits and payroll taxes	413,873	325,723	110,705	36,158	40,937	99,989	15,616	1,043,001	259,077	112,600	371,677	1,414,678
Costs of purchased inventory sold	-	1,025,385	-	-	-	-	-	1,025,385	-	-	-	1,025,385
Fair value of donated items sold	-	525,739	-	-	-	-	-	525,739	-	-	-	525,739
Advertising and events	-	95	-	-	-	-	-	95	3,782	2,019	5,801	5,896
Depreciation	-	55,154	-	110,910	-	-	-	166,064	24,082	-	24,082	190,146
Insurance	78,968	47,160	6,844	43,744	1,163	2,725	15,452	196,056	14,632	2,984	17,616	213,672
Interest	-	-	-	-	-	-	30,638	30,638	8	-	8	30,646
Loan servicing	-	-	-	-	96,735	-	-	96,735	19,125	-	19,125	115,860
Other expenses	6,062	2,302	-	4,239	-	569	26,938	40,110	76,137	27,143	103,280	143,390
Postage and shipping	-	9,663	-	-	-	42	-	9,705	1,984	316	2,300	12,005
Printing and publications	-	1,490	-	-	-	-	-	1,490	2,185	31	2,216	3,706
Professional fees	-	-	-	-	-	-	1,741	1,741	91,398	-	91,398	93,139
Repairs and maintenance	27,050	3,543	64	105,319	-	-	-	135,976	29,832	-	29,832	165,808
Supplies and equipment	1,625	10,475	-	-	-	147	-	12,247	6,604	2,139	8,743	20,990
Telephone and technology	762	4,319	-	-	-	-	-	5,081	28,492	2,035	30,527	35,608
Tithe to Habitat for Humanity											-	
International, Inc.	132,500	-	-	-	-	-	-	132,500	5,000	-	5,000	137,500
Travel	14,732	7,698	-	-	-	180	-	22,610	3,411	267	3,678	26,288
Utilities	8,719	51,679	-	28	-	-	-	60,426	25,182	600	25,782	86,208
	$ 3,806,589	$ 2,070,925	$ 1,325,227	$ 309,275	$ 142,742	$ 103,652	$ 211,999	$ 7,970,409	$ 603,311	$ 150,134	$ 753,445	$ 8,723,854

See notes to consolidated financial statements.

Greater Birmingham Habitat for Humanity, Inc.

Consolidated Statements of Cash Flows
Years Ended June 30, 2022 and 2021

	2022	2021
Cash flows from operating activities:		
Change in net assets	**$ 1,430,577**	$ 2,195,280
Adjustments to reconcile change in net assets to net cash used in operating activities:		
Origination of non-interest bearing mortgage loans on sales of homes	**(3,496,543)**	(4,164,840)
Discounts on origination of non-interest bearing mortgage loans	**1,894,005**	2,014,004
Mortgage loan discount amortization	**(2,110,387)**	(1,134,930)
Gain on sale of homes and loans sold and paid off early	**(990,763)**	(665,257)
Loss on investment in partnership	**12,074**	12,074
Depreciation	**204,003**	190,146
Amortization of intangible assets	**21,385**	21,388
Amortization of debt issuance costs	**17,954**	17,954
Changes in operating assets and liabilities:		
Grants and other receivables	**(260,247)**	(828,024)
Inventory	**42,801**	(171,680)
Construction in progress	**1,002,763**	(1,167,509)
Homes available for sale	**54,518**	1,329,826
Other assets	**386,521**	108,731
Accounts payable	**83,118**	120,686
Accrued expenses	**21,238**	15,484
Refundable advance - Paycheck Protection Program	**(267,440)**	(15,560)
Net cash used in operating activities	**(1,954,423)**	(2,122,227)
Cash flows from investing activities:		
Collections on mortgage loans receivable	**3,939,564**	2,699,525
Purchases of land held for development	**(1,370,437)**	(557,689)
Purchases of property and equipment	**(491,548)**	(144,065)
Proceeds on sale of mortgage loan receivables	**1,054,980**	951,351
Proceeds on sale of property and equipment	**-**	140,000
Net cash provided by investing activities	**3,132,559**	3,089,122
Cash flows from financing activities:		
Payments on long-term debt	**(108,455)**	(139,957)
Net cash used in financing activities	**(108,455)**	(139,957)
Net increase in cash and cash equivalents and restricted cash	**1,069,681**	826,938
Cash and cash equivalents and restricted cash:		
Beginning	**7,152,754**	6,325,816
Ending	**$ 8,222,435**	$ 7,152,754
Supplemental disclosure of cash flow information:		
Cash paid during the year for interest	**$ 12,692**	$ 12,692

See notes to consolidated financial statements.

Note 1. Nature of Organization and Significant Accounting Policies

Nature of organization: Greater Birmingham Habitat for Humanity, Inc. (Habitat) is a not-for-profit corporation incorporated on March 4, 1987. Habitat is an affiliate of Habitat for Humanity International, Inc. (Habitat International), a nondenominational Christian nonprofit organization whose purpose is to create decent, affordable housing for those in need, and to make decent shelter a matter of conscience with people everywhere. Although Habitat International assists with information resources, accounting policies, training, publications, prayer support, and in other ways, Habitat is primarily and directly responsible for its own operations.

Consolidation of related entities: Habitat has adopted the provisions of the Financial Accounting Standards Board (FASB) Accounting Standards Codification (ASC) 958-810, Not-for-Profit Entities: Consolidation. FASB ASC 958-810 states that a not-for-profit organization should consolidate another not-for-profit organization if the reporting not-for-profit organization has both control of the other not-for-profit organization, as evidenced by either majority ownership or a majority voting interest in the board of the other not-for-profit organization, and an economic interest in the other not-for-profit organization. For the years ended June 30, 2022 and 2021, Habitat's related entities are as follows:

Central Alabama Housing Alliance (CAHA) is a not-for-profit corporation incorporated on July 30, 2013. CAHA was formed to engage in activities to provide quality, safe, affordable housing to low- and moderate-income individuals and families within Jefferson, Shelby, St. Clair and Walker Counties of the State of Alabama who lack the financial and other resources necessary to obtain such housing without assistance provided by CAHA.

GBHFH Funding Company I, LLC (GBHFH Funding) is a disregarded entity organized on January 15, 2015, by Habitat as its sole member. GBHFH Funding was formed to purchase mortgages from Habitat and, in turn, issue a note to PNC Community Development Company, LLC (see Note 10).

Basis of consolidation and accounting: The consolidated financial statements include the accounts of Habitat, CAHA, and GBHFH Funding (the Organization). The consolidated financial statements of the Organization have been prepared on the accrual basis of accounting in accordance with accounting principles generally accepted in the United States of America (GAAP). All material intercompany transactions and balances have been eliminated in consolidation.

Basis of presentation: For financial statement presentation, the Organization has adopted FASB ASC 958-205, Not-for-Profit Entities: Presentation of Financial Statements. Under FASB ASC 958-205, the Organization 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. In addition, the Organization is required to present a statement of cash flows.

Use of estimates: The preparation of consolidated financial statements in conformity with GAAP requires management to make estimates and assumptions that affect certain reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Revenue recognition: The Organization receives support and revenue from sales of homes, sale of loans, contributions, outlet store sales, rental income, fee income and grants.

Revenue is recognized on the sale of homes when title passes to eligible purchasers. Sales of homes include any cash down payments and non-interest bearing mortgages that have been discounted based upon prevailing market rates for low-income housing at the inception of the mortgages. The sales of homes presented in the consolidated statement of activities are net of this discount.

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

Revenue from merchandise sold in Habitat's outlet store is recognized at the point of sale.

Donations of building and home improvement materials, home furnishings, and other goods to Habitat's outlet store, ReStore, in Irondale, Alabama, are recorded as in-kind contributions at their estimated fair value. Other donations of property and equipment, construction materials and other assets are recorded as in-kind contributions at their estimated fair value at the date of donation.

Gain on sale of loans sold and paid off early are recognized when the loans are sold or paid off and include cash from any sale and the write off of any discounts on the mortgage loans.

Contributions are recognized when the donor makes a gift or a promise to give to the Organization that is, in substance, unconditional. A promise to give is a written or oral agreement to contribute cash or other assets to another entity. The Organization recognizes contributions or unconditional promises to give when received.

Rental income is recognized for rental properties as it accrues on a straight-line basis over the terms of the related leases. Tenant leasing arrangements are generally one-year lease terms. Advance receipts of rental income are deferred and classified as liabilities until earned.

The Organization recognizes grant and contract revenue as the expenses stipulated in the grant agreement have been incurred. Grant revenue on cost-reimbursement grants is recognized after the program expenditures have been incurred. As such, the Organization recognizes revenue and records a receivable for the reimbursement amount from the granting agency. Grant revenue received in advance of expenses incurred is recorded as deferred revenue.

Fee income is recognized when the services are performed by the Organization.

Contributions of donated services that create or enhance nonfinancial assets or that require specialized skills are provided by individuals possessing those skills, and would typically need to be purchased if not provided by donation, are recorded at their fair values in the period received.

A substantial number of volunteers have made significant contributions of their time to the Organization's program and supporting services. The value of this contributed time is not reflected in the consolidated financial statements as it does not require a specialized skill and is not susceptible to objective measurement or valuation.

Recognition of donor restrictions: Support that is restricted by the donor for specific purposes are reported as an increase in net assets with donor restrictions even if the restriction expires in the reporting period in which the support is recognized. When a restriction expires, net assets with donor restrictions are reclassified to net assets without donor restrictions. All other net assets, including board designated, are legally unrestricted, and are reported as part of the without donor restrictions class.

Donations of property and equipment are reported as unrestricted support unless the donor has restricted the donated asset to a specific purpose. Assets donated with explicit restrictions regarding their use and contributions of cash that must be used to acquire property and equipment are reported as restricted support. Absent donor stipulations regarding how long those donated assets must be maintained, the Organization reports expirations of donor restrictions when the donated or acquired assets are placed in service as instructed by the donor. The Organization reclassifies net assets with donor restrictions to net assets without donor restrictions at that time.

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

Cash and cash equivalents: For purposes of the consolidated statement of cash flows, the Organization considers all highly liquid investments available for current use with an initial maturity of three months or less to be cash equivalents. The Organization had $266,417 and $247,126 in cash equivalents at June 30, 2022 and 2021, respectively.

The Organization maintains cash in bank accounts at high credit quality financial institutions, which, at times, may exceed federally insured limits. The Organization has not experienced any losses in such accounts and believes it is not exposed to any significant credit risk on cash.

Restricted cash: Restricted cash, as of June 30, 2022 and 2021, represents cash set aside that must be used to construct qualifying housing under the investment in partnership as noted in Note 5.

Mortgage loans receivable: Mortgage loans receivable consist of non-interest-bearing mortgages, which are secured by real estate and payable in monthly installments over the life of the mortgage. The mortgage loans have an original maturity of 20 to 30 years. Mortgages receivable are concentrated within the greater Birmingham area. These receivables have been discounted at prevailing market rates for low-income housing in the years of origination. Interest income is recorded under the interest method. Interest income recognition ceases and loan collection is outsourced to collection professionals on a case-by-case basis.

Management's periodic evaluation of the adequacy of the allowance for loan loss is based on the Organization's past loan loss experience and the historically significant specific collateral value in excess of related mortgages. Due to the collateral value in excess of related mortgages, the Organization has determined that credit quality indicators are not applicable in their evaluation of loan loss. Management has evaluated these factors and has determined that no allowance for loan loss is necessary at June 30, 2022 and 2021.

Inventory: Inventory consists primarily of items purchased by the Organization and donated home furnishings and building and home improvement materials, which are offered for public purchase at the Habitat ReStore. The Organization determines the cost of purchased inventory using the average cost method, not in excess of net realizable value. Donations of inventory are recorded at their estimated fair value. When donated items are used in construction, such items are expensed or capitalized based upon the specific identification method.

Construction in progress and homes available for sale: Costs incurred in conjunction with home construction and renovation are capitalized until each home is sold, at which time the construction and renovation costs are expensed and reported as cost of homes sold in the consolidated statement of activities. As the purpose and mission of the Organization is to build affordable housing for low-income families, the Organization does not generally write down the value of construction in progress to estimated sales value, because any excess cost over sales value is a component of program services. Projects are classified as construction in progress until the build/rehabilitation project is substantially completed, at which time they are reclassified as homes available for sale.

Land held for development: Land held for development is carried at the lower of cost or net realizable value.

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

Property and equipment: Property and equipment are stated at cost and are depreciated using the straight-line method. All acquisitions of property and equipment in excess of $2,500 and all expenditures for repairs, maintenance, renewals, and betterments that materially prolong the useful lives of assets are capitalized. When property and equipment is retired or otherwise disposed, the related costs and accumulated depreciation are removed from the respective accounts, and the gain or loss on the disposition is credited or charged to income. Depreciation expense for the years ended June 30, 2022 and 2021, was $204,003 and $190,146, respectively.

The estimated useful lives used in computing depreciation are as follows:

	Years
Buildings, rental properties, outlet store and improvements	15-40
Office furniture and equipment	3-10
Tools and equipment	3-10
Vehicles	3-5

In accordance with FASB ASC 360-10-35, Impairment or Disposal of Long-Lived Assets, the Organization records impairment losses on long-lived assets used in operations when events and circumstances indicate that the assets might be impaired and the undiscounted cash flows estimated to be generated by those assets are less than the carrying amounts of those assets. If impairment exists, the amount of such impairment is calculated based on the estimated fair value of the asset. The Organization continually evaluates its investment in long-lived assets used in operations for impairment. Based on this evaluation, there was no impairment at June 30, 2022 or 2021.

Investment in partnership: The Organization's investment in a partnership is accounted for on the cost basis, as it does not possess the ability to exercise control or significant influence over the partnership.

Intangible assets: Intangible assets with definite lives are amortized on the straight-line method over the useful life, 7 to 15 years. Intangible assets include costs of $233,967 less accumulated amortization of $145,957 and $124,572 as of June 30, 2022 and 2021, respectively. Amortization expense for the years ended June 30, 2022 and 2021, was $21,385 and $21,388, respectively. Amortizable intangible assets are reviewed for impairment whenever events or circumstances indicate the carrying amount of such assets may not be recoverable. The amortization period and method are reviewed at least at each financial year end.

Debt issuance costs: Debt issuance costs are amortized using the straight-line method over the expected life of the related debt, which approximates the effective interest method, and are presented as a direct deduction from the face amount of the financings (see Note 10). The related expense is included in interest expense in the consolidated statements of functional expenses.

Compensated absences: Full-time employees accrue vacation leave at a rate established by the Organization. Upon separation of employment from the Organization, an employee will be compensated for any unused vacation leave accrued. Amounts accrued by employees have been included in accrued expenses in the accompanying consolidated statements of financial position.

Functional expenses: The costs of providing various programs and other activities have been summarized on a functional basis in the consolidated statements of activities and in the consolidated statements of functional expenses. Accordingly, certain costs have been allocated among the program services and supporting services benefited based on a percentage method on the following bases: 1) depreciation, insurance, and utilities are allocated based on square-footage used by each program and 2) salaries and benefits are allocated based on estimates of time and effort.

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

Income taxes: The Organization is exempt from federal income taxes under Section 501(c)(3) of the Internal Revenue Code. The Organization pays income taxes on gross income from any unrelated trade or business income less direct expenses. There was no income tax paid on such unrelated trade or business income for the years ended June 30, 2022 or 2021.

The Organization files tax returns in the United States (U.S.) federal jurisdiction. The Board of Directors evaluated the Organization's tax positions and concluded that the Organization have not entered into any events or transactions that would disqualify their tax-exempt status or has not taken any uncertain tax positions that would cause the Organization to incur income taxes or penalties at the entity level.

Recent accounting pronouncement: In September 2020, the FASB issued ASU 2020-07, *Not-for-Profit Entities (Topic 958): Presentation and Disclosures by Not-for-Profit Entities for Contributed Nonfinancial Assets*. This ASU requires a not-for-profit entity to present contributed nonfinancial assets in the statement of activities as a line item that is separate from contributions of cash or other financial assets. The term nonfinancial asset includes fixed assets, use of fixed assets or utilities, materials and supplies, intangible assets, services and unconditional promises of those assets. A not-for-profit entity also is required to disclose contributed nonfinancial assets received disaggregated by category that depicts the type of contributed nonfinancial assets as well as other expanded disclosures. The ASU should be applied on a retrospective basis and is effective for annual periods beginning after June 15, 2021, and interim periods within annual periods beginning after June 15, 2022. Early adoption is permitted. The Organization is currently evaluating the impact the pending adoption of the new standard will have on its financial statements.

Subsequent events: Subsequent events have been evaluated through October 25, 2022, which is the date the financial statements were available for issuance.

Note 2. Liquidity

As of June 30, 2022 and 2021, the Organization had financial assets available within one year of the consolidated statements of financial position date for general expenditure as follows:

	2022	2021
Cash and cash equivalents	$ 8,190,523	$ 7,126,905
Restricted cash	31,912	25,849
Mortgage loans receivable due within one year, net of discount	2,235,784	2,313,567
	10,458,219	9,466,321
Less those unavailable for general expenditures within one year, due to:		
Restricted cash to construct qualified housing	(31,912)	(25,849)
Donor-imposed restrictions	(105,894)	(151,434)
	$ 10,320,413	$ 9,289,038

The Organization has a policy to structure its financial assets to be available as its general expenditures, liabilities, and other obligations come due. In addition, operating revenue generated throughout the year is budgeted to cover general operating expenditures. To help manage unanticipated liquidity needs, the Organization has a committed line of credit totaling $500,000, which it could draw upon (see Note 9).

Note 3. Mortgage Loans Receivable

Mortgage loans receivable consisted of the following at June 30, 2022 and 2021:

	2022	2021
Mortgages receivable at face value	$ 27,945,187	$ 28,452,425
Less unamortized discount based on imputed interest rates ranging from 7.49% to 7.23%	(12,443,067)	(12,659,449)
	$ 15,502,120	$ 15,792,976

The following table presents informative data of mortgage loans receivable regarding their age of where the mortgage loans receivable are current or have principal payments past due at June 30, 2022 and 2021:

2022	Current	30-59 Days	60-89 Days	> 90 Days	Total Receivables
Mortgage loans	$ 22,048,327	$ 1,975,213	$ 620,478	$ 3,301,169	$ 27,945,187

2021	Current	30-59 Days	60-89 Days	> 90 Days	Total Receivables
Mortgage loans	$ 22,356,558	$ 4,444,113	$ 935,721	$ 716,033	$ 28,452,425

As of June 30, 2022, these mortgages are expected to be received in future years as follows:

2023	$ 2,784,388
2024	2,724,237
2025	2,688,470
2026	2,656,693
2027	2,557,730
Thereafter	14,533,669
	$ 27,945,187

Mortgage loans receivable of $645,263 and $745,715 were pledged as security for notes payable at June 30, 2022 and 2021, respectively. Mortgage loans receivable are collateralized with real estate concentrated within the greater Birmingham area.

During the years ended June 30, 2022 and 2021, Habitat entered into loan swaps with Alabama Housing Finance Authority (AHFA) for loans that were in need of foreclosure, but could not be processed by AHFA. Habitat received mortgage loans and a cash balance in the amount of the mortgage loans sold to AHFA. At June 30, 2022 and 2021, Habitat serviced $1,953,614 and $2,214,357, respectively, in mortgage loans for the benefit of AHFA.

Note 4. Property and Equipment

Property and equipment consisted of the following at June 30, 2022 and 2021:

	2022	2021
Buildings and improvements	$ 532,532	$ 537,330
Rental properties	3,543,683	3,067,814
Outlet store	1,528,840	1,522,115
Office furniture and equipment	83,857	73,076
Tools and equipment	56,161	56,161
Vehicles	192,900	192,500
	5,937,973	5,448,996
Less accumulated depreciation	1,929,764	1,728,332
	$ 4,008,209	$ 3,720,664

Note 5. Investment in Partnership

On December 20, 2017, the Organization invested, along with five other Habitat for Humanity affiliates, in a partnership (Harbor Habitat Leverage II, LLC) with 16.6667% ownership to take advantage of New Market Tax Credit (NMTC) financing. NMTC financing allows an entity to receive a loan or investment capital from outside investors, who will then receive net market tax credits to be applied against their federal tax liability. As a result, the Organization invested $1,207,410 and was able to secure a 20-year loan in the amount of $1,715,000 payable to a community development entity. The loan proceeds are to be used solely for the purpose of acquiring, renovating and/or constructing single-family homes in qualified census tracts and selling 100% of such homes to low-income persons.

The loan accrues interest only for years 1 through 7 at a reduced rate of 0.70% per year. Beginning in year 8 through year 20, the principal balance of the loan is reduced by a twelve-year amortization at the same rate of 0.70%. During the years ended June 30, 2022 and 2021, the loss on investment of $12,074 and $12,074, respectively, was equivalent to 99.98% of the interest payments on the resulting $1,715,000 debt, which reduced the carrying value of the investment in partnership at June 30, 2022 and 2021, to $1,153,714 and $1,165,788, respectively.

In December 2024, Twain Investment Fund 296, LLC (the Fund), and the upstream effective owner of Harbor Community Fund XIII, LLC (holder of the promissory note due from the Organization) is expected to exercise its put option. Under the terms of the put option agreement, Harbor Habitat Leverage II, LLC is expected to purchase the ownership interest of the Fund. Exercise of the option will effectively allow the Organization to extinguish its outstanding debt owed to the Fund.

Note 6. Other Assets

Other assets consisted of the following at June 30, 2022 and 2021:

	2022	2021
Escrow advances	$ -	$ 388,875
Investor advances	72,274	71,119
Prepaid expenses	53,736	48,218
Gift cards received from grants	26,475	30,794
	$ 152,485	$ 539,006

Note 7. Refundable Advance – Paycheck Protection Program

In March 2021, the Organization received loan proceeds in the amount of $267,440 under the second round of Paycheck Protection Program (PPP) loans. The second round PPP, enacted in December 2020, was established as part of the *Economic Aid to Hard-Hit Small Businesses, Nonprofits, and Venues*. The loan and accrued interest were forgiven and recorded as revenue during the year ended June 30, 2022.

Note 8. Related Party Sale on Mortgages

During the year ended June 30, 2015, GBHFH Funding acquired twenty-four mortgages, at cost, from Habitat for a total of $646,705, resulting in no income recognized on the Organization's books for the removal of the unamortized discount on each original mortgage. These two entities are consolidated, and all intercompany amounts are eliminated. GBHFH Funding then entered into a note purchase agreement with PNC Community Development Company, LLC (PNC). GBHFH Funding authorized the issuance and sale of a secured note in the amount of $1,252,958 (gross balance of mortgages receivable transferred from Habitat) to PNC for $924,193 on March 24, 2015. See Note 10 for terms and outstanding balance of the PNC note payable. The difference of $328,765 from the secured note with PNC was capitalized as deferred costs on the books of GBHFH Funding and amortized over the life of the loan (280 months).

Note 9. Line of Credit

At June 30, 2022 and 2021, the Organization had a $500,000 (new) and $300,000 (old), respectively, line of credit agreement with a bank secured by inventory, equipment and receivables. Interest is charged on the new line at the prime rate, with a floor of 3.5% (5.5% at June 30, 2022). The old line, which expired in June 2022, was charged at the prime rate plus 1.00% (4.25% at June 30, 2021). The new line of credit will mature in July 2023. At June 30, 2022 and 2021, there was $0 outstanding on the line of credit.

Note 10. Notes Payable

Notes payable consisted of the following at June 30, 2022 and 2021:

	2022	2021
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $1,283 (0.00% interest), through December 2021	$ -	$ 6,456
Promissory note payable to Habitat for Humanity International, Inc., due in monthly installments of $578 (0.00% interest), through December 2022	-	4,863
Qualified Low Income Community Investment Loan, interest only payments until December 2024 (interest at 0.7041%). The loan matures in December 2037. The loan was secured by substantially all assets acquired by Habitat from the project loan proceeds, and has a put option feature that is exercisable in 2024	1,715,000	1,715,000
Promissory note payable from GBHFH Funding to PNC Community Development Company, LLC, due in monthly installments of $5,702 (0.00% interest) through June 2038, collateralized by assignment of mortgage notes	665,010	756,146
Promissory note payable to the UAB Educational Foundation, due in semi-annual installments of $3,000 (0.00% interest) through July 2038	93,000	99,000
	2,473,010	2,581,465
Less debt issuance costs, net	198,597	216,551
	$ 2,274,413	$ 2,364,914

Note 10. Notes Payable (Continued)

Future scheduled maturities of long-term debt for the next five years and thereafter are as follows:

2023	$ 68,315
2024	68,315
2025	68,315
2026	68,315
2027	68,315
Thereafter	2,131,435
	$ 2,473,010

Note 11. Net Assets With Donor Restrictions

Net assets with donor restrictions consist of the following as of June 30, 2022 and 2021:

	2022	2021
Home sponsorships	$ 81,505	$ 10,600
Jefferson County community development project	24,389	63,798
Walker County building projects	-	22,500
Home buyer education	-	20,346
Revitalization	-	13,957
Women's Build	-	12,070
NSP funds to be used in acquiring and rehabilitating foreclosed properties	-	8,163
	$ 105,894	$ 151,434

Note 12. Net Assets Released from Restrictions

Net assets during the years ended June 30, 2022 and 2021, were released from donor restrictions by incurring expenses satisfying the restricted purposes or by occurrence of other events specified by donors.

	2022	2021
Purpose restrictions accomplished:		
Home sponsorships	$ 349,250	$ 300,000
Jefferson County community development project	39,409	20,625
Hill Crest Foundation	25,000	-
Walker County building projects	22,500	-
Home buyer education	20,346	19,654
Protective Life Foundation	15,000	-
Revitalization	13,957	-
Women's Build	12,325	-
NSP funds to be used in acquiring and rehabilitating foreclosed properties	8,163	-
Wahouma Neighborhood Revitalization	-	60,000
Wells Fargo new construction project	-	30,000
Building on Faith	-	19,500
Tornado relief	-	5,000
	$ 505,950	$ 454,779

Note 13. Outlet Store Sales

Habitat operates a home improvement outlet store, ReStore, in Irondale, Alabama. ReStore sells new and used home furnishings and building and home improvement materials to the general public. Donations to the ReStore are made by contractors and other businesses, organizations and individuals that have surplus or discontinued merchandise.

The purpose of the ReStore is to raise funds to support Habitat programs as well as provide an affordable home improvement outlet store for its homeowners. Accordingly, costs of purchased inventory sold, the fair market value of donated items sold and expenses of operating the ReStore are reported as program expenses in the consolidated statements of functional expenses.

Outlet store sales net revenue for the years ended June 30, 2022 and 2021, are summarized as follows:

	2022	2021
Sales of purchased and donated items	$ 2,092,877	$ 2,187,350
Costs of purchased inventory sold	(1,045,273)	(1,025,385)
Fair market value of donated items sold	(703,861)	(525,739)
	$ 343,743	$ 636,226

Note 14. Retirement Plan

The Organization has a defined contribution 403(b) retirement plan. Regular employees, 21 years of age or over, are eligible to participate. The Organization will match a portion of the employee's contribution up to 6% of the employee's salary. Retirement plan expense for the years ended June 30, 2022 and 2021, was $58,663 and $55,284, respectively.

Note 15. Commitments and Contingencies

The Organization received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such review could result in disallowance of expenditures under the terms of the grant or reductions of future grant funds. Based on prior experience, the Organization's management believes the costs ultimately disallowed, if any, would not materially affect the financial statements.